



## Reducing the Burden of Texas' State Liabilities on Current and Future Generations

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### Executive Summary

Texas has a proven record of financial stability. Ranking 16th nationwide in fiscal health, 7th in lowest state debt per capita, and with historically high population growth rates accompanied by economic growth, these factors have kept Texas steadfast even during times of economic uncertainty. Relatively sound fiscal management has provided Texans a certain level of comfort, but increasingly evident signs of vulnerability are raising concerns about the state's financial health.

Rising state debt, lack of transparency among state liabilities (i.e., debt and pensions), unfunded liabilities of state pensions, and issuance of state debt will continue chipping away at the public's well-being without key reforms. These issues could jeopardize Texas' AAA credit rating by the three major credit rating agencies and place increasing burdens on taxpayers ([Texas Bond Review Board 2016, 4-7](#)). Reducing state liabilities will begin to lessen these burdens and move Texas towards sound fiscal management.

### Key Points

- Texas' state debt growth has outpaced that of the population by 52.7 percent from 2006 to 2016.
- Texas has the second lowest state debt per capita among the top 10 most populous states, but the \$80.8 billion in total debt service outstanding burdens Texans.
- The state's two largest pension systems have combined unfunded liabilities of \$41 billion that will burden taxpayers if not fully funded.
- Passing ballot box transparency for issuances of state debt, converting pensions to defined-contribution plans, and prioritizing surplus funds to cut taxes will best serve Texans.

### Introduction

*"I place economy among the first and most important virtues and public debt as the greatest of dangers to be feared. To preserve our independence, we must not let our rulers load us with public debt. We must make our choice between economy and liberty or confusion and servitude. If we run into such debts, we must be taxed in our meat and drink, in our necessities and comforts, in our labor and in our amusements. If we can prevent the government from wasting the labor of the people, under the pretense of caring for them, they will be happy."*

*—Thomas Jefferson, third president of the United States of America.*

The Lone Star State has benefited from historically high rates of economic activity and population growth. Texans and legislators who represent them should respond to the words of Jefferson and place workers' interests at the forefront by attempting to wisely spend taxpayer dollars and cautiously issue debt to fund various government-provided goods and services.

vency, service-level solvency, and trust fund solvency), Texas ranks 16th overall and 18th in long-run solvency among the 50 states and Puerto Rico ([Norcross and Gonzalez](#)). Moreover, Texas has been touted as having the second lowest state debt per capita among the top 10 most populous states and the seventh lowest among all 50 states ([Texas Bond Review Board 2016, 8-9](#)). By keeping state debt at a relatively low level, Texas has received the highest AAA rating from three major credit rating agencies (Moody's, S&P, and Fitch) since 2013 ([Texas Bond Review Board 2016, 1](#)). Texas Comptroller Glenn Hegar ([2016](#)) notes: "A low debt per capita burden means that a state can probably manage its debt without raising tax revenue or risking default."

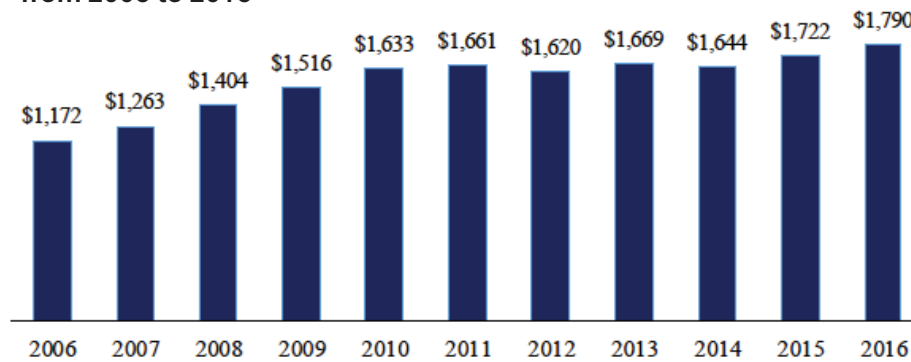
However, there are reasons to be concerned over a longer-term horizon. **Figure 1** (next page) shows that Texas' state debt per capita has substantially increased during the last decade, meaning that state debt growth far outpaced population growth. This is concerning because more debt could unnecessarily burden taxpayers.

Based on five financial measures of fiscal health (cash solvency, budget solvency, long-run sol-

Another mounting burden on taxpayers is Texas' state pension liabilities. The combined

*continued*

**Figure 1: Texas' State Debt Outstanding per Capita Up 52.7 Percent from 2006 to 2016**



Source: [Texas Comptroller](#) and [Texas Bond Review Board](#)

unfunded liabilities of the two largest state pension systems, Employees Retirement System and Teachers Retirement System, are \$41 billion. By comparison, the burden of these two pension systems amount to almost all of the \$49.8 billion in state debt outstanding. Combined, these state liabilities, i.e., state debt and state pensions, represent ongoing and increasing costs to Texas taxpayers.

To assist state policymakers in reducing state liabilities, we explain the types of state debt and issues surrounding state liabilities and then make three recommendations: pass ballot box transparency for issuances of state debt; convert pensions to defined-contribution plans; and prioritize state revenue surpluses to cut taxes. Collectively, these recommendations would increase state debt transparency and decrease future tax liabilities.

### What is State Debt?

State debt is obligations of the state that can be issued by state agencies and universities. The Texas Bond Review Board (2016) reports the amount of state debt outstanding but it includes only the principal owed on bonds issued by the state of \$49.8 billion. However, this amount understates the full cost of servicing state debt until maturity by excluding the interest owed. State debt service outstanding, on the other hand, includes the principal and interest owed over the life of debts. It amounts to \$80.8 billion, or almost \$3,000 owed per Texan, with the \$31 billion difference between debt outstanding and debt service outstanding being the interest owed ([Texas Bond Review Board 2016a](#)). Understanding the types of state debt, their repayment categories, and special debt commitments are essential to appropriately assessing how to reduce state debt.

### Types of State Debt

There are two types of state debt: general obligation (GO) debt and non-general obligation (revenue) debt ([Texas Bond Review Board 2016, 26](#)).

- GO debt is supported by the full faith and credit of the state that requires Texans to approve the ballot measure by a majority vote after a two-thirds approval by both chambers of the Legislature. This debt, totaling \$18.3 billion of principal outstanding, funds public works such as highway construction through highway improvement (Prop 12) bonds, water projects through water development bonds, and other projects, and has the first call on general revenue (GR) for repayment.
- Non-general obligation (revenue) debt is not supported by the full faith and credit of the state and thus does not require voter approval after passage by the Legislature. It is often repaid by revenue other than GR. This debt totaling \$31.5 billion of principal outstanding includes bonds issued for toll roads and revenue bonds for university services. The state is not obligated to use GR to repay these bonds.

### Repayment Categories of State Debt

State debt can be categorized by how they are repaid. These include: self-supporting (SS) debt, not self-supporting (NSS) debt, and conduit debt.

- Self-supporting (SS) debt is generally repaid with revenue streams other than GR. Examples include veterans land and housing bonds (GO) and college and university revenue system bonds (revenue). The principal outstanding for SS debt is \$36.8 billion: GO SS debt is \$11.7 billion and revenue SS debt is \$25.1 billion.

- NSS debt is repaid with GR. Examples include cancer prevention and research bonds (GO), and Texas military facilities commission bonds (revenue). The principal outstanding for NSS debt is \$6.7 billion, with GO NSS debt amounting to \$6.6 billion and revenue NSS debt being \$0.1 billion.
- Conduit debt is considered state debt because it is issued by state agencies but it is not a legal state liability since a third party backs it; therefore, conduit debt is categorized as revenue debt. Examples include the Texas Windstorm Insurance Association (TWIA) and the Texas Grand Parkway Transportation Corporation. The principal outstanding for conduit debt is \$6.3 billion.

### Special Debt Commitments

In their analysis of state debt affordability, the Texas Bond Review Board (2016b, 25-27) includes what they call special debt commitments (SDC). Although an SDC is not a legal obligation of the state, its debt is usually serviced by the state. SDCs include tuition revenue bonds (TRB), instructional facilities allotments (IFA), and existing debt allotments (EDA).

TRBs are technically SS debt serviced by the institution that issues them but are typically reimbursed by the Legislature. The Texas Bond Review Board (2016, 30) notes that “Although college and university revenue debt is payable from a pledge of certain ‘revenue funds’ of the applicable system or institution of higher education . . . the legislature has historically appropriated funds in an amount equal to all or a portion of the debt service on tuition revenue debt issued.” TRBs account for \$2.4 billion, or about 4.8 percent, of the \$49.8 billion in total state debt outstanding (Texas Bond Review Board 2016, 31). The Legislature and a university’s board of regents approve TRBs instead of voters like some other forms of debt issued serviced by the Legislature, potentially reducing accountability and oversight of taxpayer dollars. Prior to each legislative session, the Texas Higher Education Coordinating Board rates TRB requests according to factors such as the space usage efficiency of the institution making the request. One way to compensate for voters’ reduced control over this form of (effectively) public debt is to increase the role played by the Coordinating Board in the TRB authorization process. This could be done by requiring TRBs to earn at least a “recommended” rating from the Coordinating Board in order to be authorized by the Legislature, or even simply by attaching the Coordinating Board’s rating of each TRB to its corresponding bill, the same way the LBB attaches fiscal notes (McGuire).

IFAs and EDAs are state supported school district debt issued by local school boards and approved by voters. The IFA program assists school districts in terms of debt service payments on qualifying bond or lease-purchase agreements for the construction or renovation of an instructional facility. The EDA differs from the IFA in that the EDA helps with debt for both instructional and non-instructional purposes and if the district made a payment in the previous biennium on the debt or levied taxes to repay it, it is automatically eligible for state funds. Moreover, changes in state aid of existing IFA and EDA funding to hold harmless local interest and sinking revenue from changes in taxable value of property from an increase in the homestead exemption for school districts is called additional state aid for homestead exemption for facilities (ASAHE-Facilities) (Texas Bond Review Board 2016b, 26). Funding for both the IFA and the EDA comes from the Foundation School Program, which is funded by GR and local property tax revenues (Barba et al., 22, 41).

Understanding state debt provides a foundation with which to appropriately consider how best to turn the rising tide of state debt outstanding that has increased 52.7 percent faster than population growth since 2006 and reduce the state debt service outstanding burden of almost \$3,000 per Texan. Moreover, determining how these debts compare with the constitutional debt limit is important in reducing debt burdens on Texans.

### Constitutional Debt Limit and Debt Affordability

The Texas Constitution states that “the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed five percent of an amount equal to the average of the amount of general revenue fund revenues, excluding revenues constitutionally dedicated for purposes other than payment of state debt, for the three preceding fiscal years.” As a percentage of unrestricted GR, the ratio of debt service on outstanding or issued debt was 1.36 percent; the debt ratio of authorized but unissued debt was 1.01 percent, totaling 2.37 percent, which is below the constitutional debt limit of 5 percent of unrestricted GR (Texas Bond Review Board 2016, 11-12). Although these state debt shares of unrestricted GR do not currently appear to be an issue, this does not mean that all of the debt is necessary or that other considerations should not be made for SDCs that often act like GO debts.

The Texas Bond Review Board (2016b, 2) is required by statute to consider other measures to determine debt affordability. These other measures include the following

ratios of future NSS debt service and SDCs as a percentage of the three year rolling average of unrestricted GR: target ratio of 2 percent based on historical appropriations for NSS debt service, cap ratio of 3 percent to provide a buffer for growth, and maximum ratio of 5 percent. The Bond Review Board (2016b, 12) notes that these measures are “a critical determinant of debt capacity because both the abilities to generate revenue through taxation and to appropriate funds for debt service are within the state’s control. State revenues available to pay debt service are legislatively determined by taxation on such items as sales, business franchises, fuels, crude oil production and natural gas production. The legislature then appropriates debt service based on the amounts needed for both existing and newly authorized debt.” Figure 2 shows the Bond Review Board’s (2016b, 2) projections of the NSS debt service as a percentage of unrestricted GR are below these measures, indicating that current state debt is affordable for taxpayers; but when the Bond Review Board includes SDCs, the ratios exceed the designated target and cap ratios and could soon reach closer to the maximum ratio of debt affordability.

Considering that the ratios that the Bond Review Board uses to determine debt capacity exceed the target and cap ratios, future debt issuances should be carefully considered.

### State Pension Liability

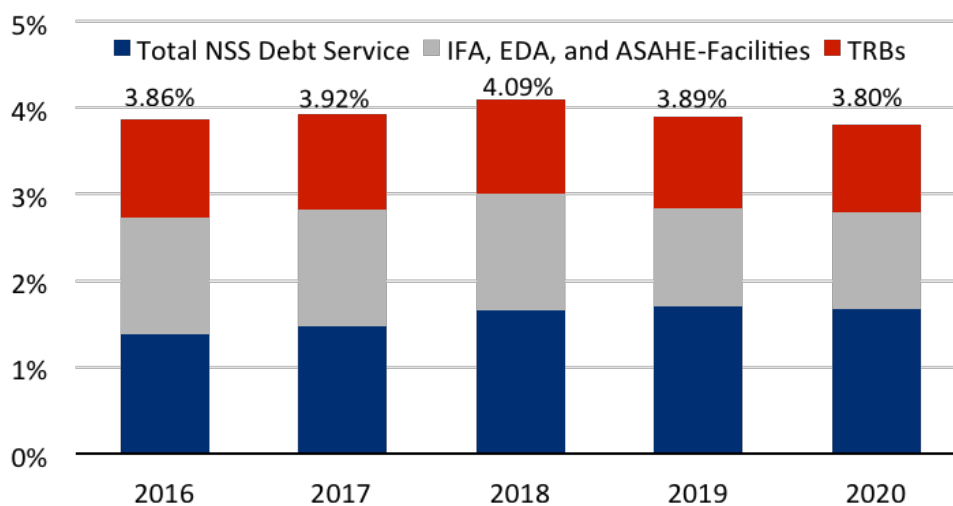
To evaluate the full cost of liabilities on taxpayers, state pension liabilities should be considered in the discussion with state debt. State pension systems are essentially liabilities

that fund retirement accounts for state employees that function much like state debt because they represent current and future liabilities that taxpayers will pay if pensions are not fully funded (sufficient assets to pay current and future pension benefits). However, pension systems are different because if they are fully funded by the matching contributions of employees and the government (i.e., taxpayers), there are no additional liabilities on current and future taxpayers. These retirement systems are often legally liable to pay defined benefits totaling 10 to 20 times what state employees paid in the system—if investing returns drop or benefits are increased, taxpayers would be on the hook for paying now and in the future to fully fund them. In other words, state pensions could soon be a large burden on Texans, and most states, without structural reform.

### Unfunded State and Local Pension Liabilities Nationwide

State pension liabilities nationwide continue to soar. When considering different discount rates that are used to calculate the net present value of those liabilities owed, the amount of unfunded state and local pension liabilities nationwide is in the trillions of dollars. Unfunded liabilities are the differences between promised benefits to future retirees and money available to fund those benefits. When considering a 7.5 percent annual rate of return on an actuarial basis, which is close to the 8 percent assumed rate of return on the largest state pensions in Texas, the unfunded liability on pension systems nationwide is about \$1 trillion (Nation). However, given interest rates are historically low

**Figure 2: Debt Service Commitment Ratios Above Cap Ratio of 3 Percent for Debt Affordability**



Source: [Texas Bond Review Board](#)

and without these fund managers taking excessive risks, more realistic projections over time show substantially higher unfunded pension liabilities. Using risk-free U.S. Treasury security rates, the 20-year rate of 3 percent gives an unfunded liability of \$4.8 trillion ([Nation](#)) and the average 15-year rate of 2.3 percent gives an unfunded liability of \$5.6 trillion ([Williams et al.](#)). This latter figure amounts to \$17,427 per every man, woman, and child in the United States.

### ***Unfunded State Liabilities in Texas***

Texas is not immune to the problems that trouble pension systems across the country. Although Texas' state pensions do not have the same level of unfunded liabilities, the amount of unfunded liabilities and the assumed rate of return are problems that must be addressed. Volatile annual rates of return and fewer contributors paying for more beneficiaries are exhausting these defined-benefit (DB) plans, whereby beneficiaries are promised regular payments substantially higher than their contributions that leave these retirement systems with mounting unfunded liabilities.

The Texas Pension Review Board (PRB), the state agency charged with overseeing Texas' state and local retirement systems, notes that the eight state pensions in Texas total \$48.1 billion in unfunded liabilities given the average annual discount rate of 7.8 percent. This gives an average actuarial funded ratio—a measure of a plan's current assets as a share of its liabilities—of 81.9 percent, which is only slightly above the 80 percent threshold often considered as actuarially sound. According to the average 15-year rate of 2.3 percent by [Williams et al.](#), Texas' unfunded liabilities of \$362.7 billion ranks 3rd highest nationally, funded ratio of 36.9 percent ranks 17th highest, and unfunded liabilities per capita of \$13,120 ranks 14th lowest. These large unfunded liabilities are dominated by the two largest state pension systems, Teachers Retirement System (TRS) and Employees Retirement System (ERS), which account for \$41 billion of the total unfunded liabilities at their assumed 8 percent annual rate of return, and include 1.7 million members ([Texas Comptroller 2016b](#)).

TRS, the state's largest pension fund, had unfunded obligations totaling \$33 billion, or \$22,592 per member, and ERS, the second largest fund, had unfunded liabilities totaling \$8 billion, or \$32,126 per member, in August 2015. The threat posed by these pensions' unfunded liabilities led to reforms, such as raising the retirement age and increasing contribution rates, during the 2013

and 2015 Texas legislatures. However, assuming an often overpromised 8 percent annual rate of return, the actuarial funded ratio is 80.2 percent for TRS and 76.3 percent for ERS, meaning that these are near the threshold of not being actuarially sound ([LBB, 9-11](#)). While modifications like those passed in 2013 and 2015 have bought some time for the plans, these adjustments do little to change the long-term increased cost trajectory, indicating the need for substantive changes to retain solvency.

### **Recommendations to Reduce the Rising Burden of State Liabilities**

To reduce the rising burden of state liabilities by making debt more transparent, restructuring pensions, and prioritizing tax cuts over other uses for revenue surpluses, we provide the following recommendations:

#### ***Pass Ballot Box Transparency for Issuances of State Debt***

The substantial increase in state debt outstanding per capita to \$49.8 billion from FY 2006 to FY 2016 translates into \$1,790 owed by every man, woman, and child in the Lone Star State ([Texas Bond Review Board 2016, 7](#)). If these trends continue, Texans will be burdened with higher taxes.

Although a majority of voters must approve GO debt, they are often unaware of the consequences of approving a bond initiative. The Texas Comptroller's office has taken beneficial steps in this direction by providing valuable information on the [Comptroller's website](#). We recommend that legislators do more by requiring the following information on ballot propositions for voter approval of issuances of GO state debt: total debt service required (principal plus interest) to pay the proposed debt on time and in full and an estimate of the proposed debt's influence on the average taxpayer's taxes as recommended for local debt ([Quintero](#)).

By increasing transparency so that voters better understand the cost of issuing state debt, the rising burden of state debt can be altered and eventually eliminated.

#### ***Convert State Pensions to Defined-Contribution Plans***

Although modifications in 2013 and 2015 to Texas' major pensions bought some time for the plans, these adjustments do little to change the long-term cost trajectory, indicating the need for substantive changes to retain solvency. We recommend that these pension systems be changed from defined-benefit (DB) plans to defined-

contribution (DC) plans (i.e., payments based on employee contributions and a defined government match, such as a 401(k) that are by definition fully funded) with little to no transaction cost ([Biggs, 19-20](#)) to make them sustainable for beneficiaries long term while eliminating potentially higher taxes to fund them ([Arduin et al., 23](#)).

This DB to DC transition in Texas could be done by implementing a hard or soft freeze of the pension systems for vested employees, and a hard freeze on enrollment in the current DB plans while enrolling newly hired or unvested employees in a DC plan. Although we do not have an estimate for the cost of this transition, Biggs notes that “claims of transition costs associated with closing a pension plan are based upon the change in the plan’s portfolio in isolation from the reduction in the plan’s liabilities that causes the shift in portfolio allocation. When the results of closing a defined-benefit pension plan are viewed in totality, it becomes clear that liabilities do not increase” ([20](#)). Ultimately, whatever the initial transition costs may be, they will be outweighed by the benefits of lower future costs and certainty by state employees and taxpayers that these pensions will be fully funded.

Moving Texas’ public pension systems away from the DB system and into a DC model would restore sustainability in the system, benefitting taxpayers and state employees. DC plans put the power of an individual’s future in their own hands instead of depending on the uncertain fortune of government directed DB plans. DC plans resemble 401(k)s in the private sector and the optional retirement programs (ORP) available for higher education employees in Texas. DC plans are portable and sustainable over the long term as they are based on the contributions of retirees and a defined government match. With DC plans, retirees will finally have the opportunity to determine how much risk they are willing to accept. They also reduce the risk that the government will default on their retirement or fund those losses with dollars from taxpayers who never intended to use these pensions ([Curry](#)).

By giving retirees more freedom on how to best provide for their family with DC plans, families will be in a much better position to prosper. Because of the efficiency, simplicity, and fully funded nature of DC plans, the private sector moved primarily to them long ago. To assure the beneficiaries of these state pensions in Texas that they will receive their retirement funds and to assure taxpayers that more of their money will not be at risk, the state’s pension systems should be fully funded and ultimately converted to DC plans.

### ***Prioritize Cutting Taxes over Other Uses for State Revenue Surpluses***

There have been discussions about how Texas should use surpluses of state revenue. These surpluses are the excess of available revenue over projected spending for a budget cycle. The surpluses may have accumulated over time, as is the case with the Economic Stabilization Fund (ESF), or simply be the result of projected revenues for a budget period exceeding projected expenditures. In either case, the options for dealing with a surplus include spending more money, buying down existing debt, continuing to save the surplus for a “rainy day,” or cutting taxes.

Since government spending is supported by taxes that take money out of the pockets of citizens and thereby distorts economic activity, all growth in government spending no matter the revenue source contributes to less economic prosperity. For example, in a comparison of the nine states without a personal income tax—where spending is typically lower—and the nine states with the highest personal income taxes from 2004 to 2014, [Laffer et al.](#) find that: population growth of 13.4 percent in states without a personal income tax was more than twice that of the highest income taxing states, nonfarm payroll job creation of 9.7 percent in no personal income tax states was more than double that of the high income tax states, and economic growth was more than 10 percentage points higher in the states without a personal income tax. To provide the best economic environment for more opportunities for Texans to prosper, increased spending (i.e., higher taxes) funded by current or expected surpluses should not be on the table.

Neither should Texas use surpluses to buy down existing state debt. While we have noted that state debt has recently been growing at a relatively rapid pace, our analysis indicates that it is not yet necessary for Texas to abandon the benefits of tax cuts. We considered multiple ways to determine which state liabilities have the highest cost and thus might be candidates for early retirement. We concluded the best way to prioritize these liabilities is to take a page from financially responsible individuals and compare the compounded annual growth rate of each liability. Taylor ([23-24](#)) recommends this as well and notes that “these rates reflect the interest—or carrying—cost associated with these liabilities.” Therefore, liabilities with the highest compounded annual growth rates indicate debt that might be best retired first.

**Figure 3** lists the top 10 state liabilities with the highest compounded annual growth rates for FY 2016. Not surprisingly, state pensions are at the top of the list, highlight-

**Figure 3: Prioritizing Liabilities by Compounded Annual Growth Rates in FY 2016 (Thousands of \$)**

Issuer	Issue	Pension Assets/Debt Principal	Unfunded Liabilities/Debt Interest	Total Debt Service Outstanding	Maturity Year/Fund Period	Compounded Annual Growth Rate
Teacher Retirement System (TRS)	Assets and Unfunded Liability	\$133,485,188	\$32,967,737	\$166,452,925	2048	Est. 8.00%
Employees Retirement System (ERS)	Assets and Unfunded Liability	\$25,850,542	\$8,017,817	\$33,868,360	2048	Est. 8.00%
Texas Public Finance Authority (TPFA)	GO Ref Bonds Ser 2007 (TFC & TDCJ)	\$9,055	\$453	\$9,508	2017	5.00%
Texas Water Development Board	WFA Bond Ser 2008C (EDAP)	\$7,535	\$598	\$8,133	2018	3.89%
TPFA	GO Refunding Bonds, Series 2010B	\$78,240	\$5,747	\$83,987	2018	3.61%
Texas Dept. of Transportation	Highway Improvement Bonds Ser 2010B	\$51,830	\$3,608	\$55,438	2018	3.42%
Stephen F. Austin University	Constitutional Approp. Bonds, Ser 2008	\$3,450	\$231	\$3,681	2018	3.29%
Texas Public Finance Authority	GO Ref Bonds Ser 2009B (Taxable) (BABS)	\$181,780	\$92,588	\$274,368	2029	3.22%
TPFA	GO Ref Bonds Ser 2013	\$32,365	\$6,428	\$38,793	2023	2.62%
TPFA	GO Ref Bonds Ser 2016	\$157,520	\$65,068	\$222,588	2030	2.50%

Sources: [Texas Bond Review Board](#), [Texas Comptroller](#), and authors' calculations.

ing their potential problems on the horizon. However, there are no bonds where the growth rate is so high that it would demand early payment. Combined with a generally acceptable level of debt, there is no need to divert surpluses from more beneficial uses to pay off existing debt.

This recommendation includes the use of surpluses of taxpayer dollars in funds outside of general revenue. One of these is the economic stabilization fund (ESF), commonly referred to as the state's "rainy day fund." Since 1988, it has helped the state to protect itself from major budget shortfalls during economic downturns and natural disasters without large tax hikes or spending cuts. However, the current ESF charter has recently shown weakness as multiple, non-emergency withdrawals have not only contributed in depleting the fund but also setting a dangerous precedent away from the original, emergency-only purpose that voters approved on the ballot. To eliminate these ESF abuses, [Ginn et al.](#) recommend requiring a four-fifths vote of all members, not just the current requirement of two-thirds of those present, to allocate ESF funds at any time and for any purpose outside of emergency funding. Additionally, we recommend reducing the current ESF constitutional maximum limit of 10 percent to 7 percent of certain biennial

GR-related funds. Research indicates that the 7 percent maximum cap would provide sufficient funding, along with spending cuts, to cover substantial revenue shortfalls during the vast majority of economic recessions ([Elder](#)) while allowing the other potential 3 percent or more of funds above the maximum cap to be used for more productive purposes. These include either making payments on those state liabilities above, thereby reducing future tax burdens or, more effectively, cutting taxes. These changes would contribute to retaining the ESF's financial strength while discouraging unnecessary budget growth.

The best use of surplus funds is to cut taxes. States that have a lower tax burden have much stronger economic growth than states that excessively spend taxpayer dollars ([Stansel et al.](#)). [Ginn et al.](#) expand on the recommendations above regarding the ESF by recommending that instead of funds above the lowered constitutional cap remaining in GR, they should go to leave more money in taxpayers' pocket through a mechanism known as the Sales Tax Reduction (STaR) Fund. The STaR Fund would be funded with budget cuts, surplus funds, and funds above the ESF cap that would accumulate and then be used to temporarily reduce the state sale tax rate for a specific period.

A more permanent way of reducing the size and scope of government by cutting taxes would be to eliminate the state's business margins tax. This would substantially increase economic activity and job creation ([Ginn and Heflin](#)) and boost Texas' business tax climate to near the best nationwide ([Drenkard](#)). This highlights the problem with either allowing the surplus to grow or using it to pay down existing debt; it leaves the revenue source in place for future spending. However, by permanently reducing or eliminating a tax, the reduced revenue to the state encourages less spending growth in future budgets.

## Conclusion

Although Texas has had relatively low state debt in the past, the recent rapid increase in state liabilities, which include state debt and state pensions, gives cause for concern. Increasing state liabilities supports expanding government and requires higher taxes on Texans that reduce economic activity. By passing ballot box transparency for state debt, converting pensions to defined-contribution plans, and prioritizing tax cuts over other uses for revenue surpluses, Texans will have the best opportunity to prosper. ★



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