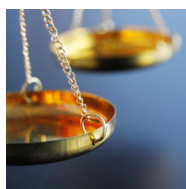


Texas Public Policy Foundation

# Local Government

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

### Local Debt



#### The Issue

Texas' local governments are awash in red ink. In fiscal year 2015, the principal amount of debt owed by cities, counties, school districts, and special districts in Texas amounted to \$212.4 billion, "an increase of \$20.09 billion (10.4%) over the past five fiscal years," according to the Bond Review Board. On a per capita basis, that level of indebtedness translates into an obligation of \$7,750 owed per person.

Of course, the burden is even greater when interest is accounted for. Texas' total local debt, including principal and interest, stood at more than \$338 billion in fiscal year 2015. On a per capita basis, the tab for each Texan amounts to roughly \$12,250 while the bill for a family of four is almost \$50,000.

Most of Texas' local debt burden can be traced back to city and school district excess. City governments collectively owe \$105.8 billion while ISDs owe a combined \$117.7 billion, representing two-thirds of the overall total.

It's not just the size of local debt that is staggering, but also the rate at which it is accumulating. From 2000 to 2015, local government debt soared by more than 162%. Over the same period, traditional economic measures like population and inflation grew just 68.8%, proving that there's a significant delta between the actual and ideal rates of growth.

The girth and growth of local debt are among Texas' most pressing public policy problems. In the absence of meaningful reform, the status quo is sure to produce higher taxes, lower credit ratings, and slower economic growth.

While there's no silver bullet solution, there are several important reforms that can help get Texas back on firmer footing locally. And of those, ballot box transparency is perhaps the most important.

Upon entering the voting booth, a Texan has just two pieces of information in front of him or her for any given bond proposition: a short paragraph of legalese that can usually be construed to mean anything and the principal amount to be borrowed. Absent is any detail on how the bond's passage might affect the average taxpayer or how much the bond is expected to fully cost.

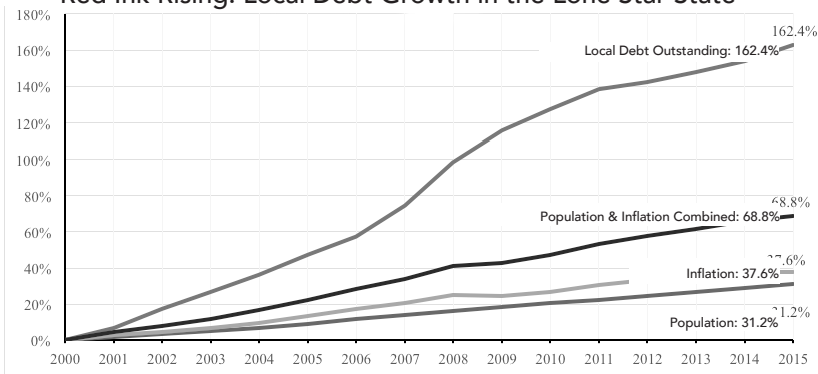
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Voters need more information to be in the best position possible to make prudent fiscal decisions. To ensure a more well-informed electorate, the Legislature should require all new debt propositions to include a short list of simple facts, including:

- The estimated combined principal and interest required to pay the proposed bonds on time and in full; and
- The estimated additional tax burden on the average area resident that would result from the passage of the measure.

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



Source: Texas Bond Review Board, U.S. Census Bureau, U.S. Bureau of Labor

Reforming the process to include just this little bit of extra information could have a profound impact on the state's fiscal future. Because without an informed electorate making prudent fiscal decisions, other reforms simply won't matter.

## The Facts

- In fiscal 2015, local debt outstanding (principal only) was estimated at \$212.4 billion, or approximately \$7,750 owed per person.
- In fiscal 2015, local debt service outstanding (including principal and interest) was estimated at \$338.4 billion, or approximately \$12,250 owed per person.
- Among the top 10 most populous states, Texas' local debt per capita ranks as the 2nd highest total, behind only New York.
- Only two items of information are included with each proposed debt issuance: the principal amount that the governmental entity intends to borrow and a general description of the purpose.

## Recommendation

Require local governments seeking to issue bonds to provide voters with basic financial information about the proposition being decided upon.

## Resources

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

[\*Ensuring Debt Transparency, Accountability, and Fair Elections\*](#), Texas Public Policy Foundation (Sept. 2014).

[\*Improving Financial Transparency at the Ballot Box\*](#) by James Quintero, Texas Public Policy Foundation (Aug. 2014).

