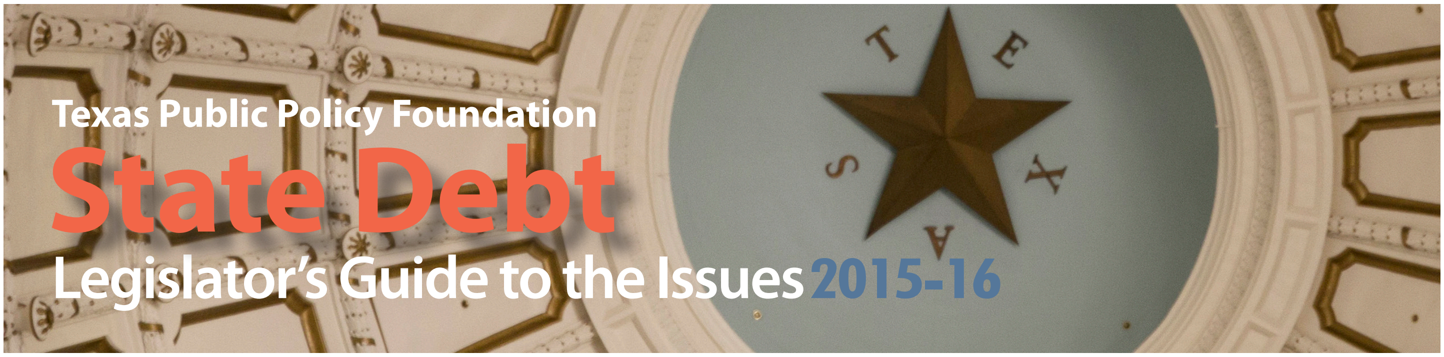


Texas Public Policy Foundation

State Debt

Legislator's Guide to the Issues 2015-16

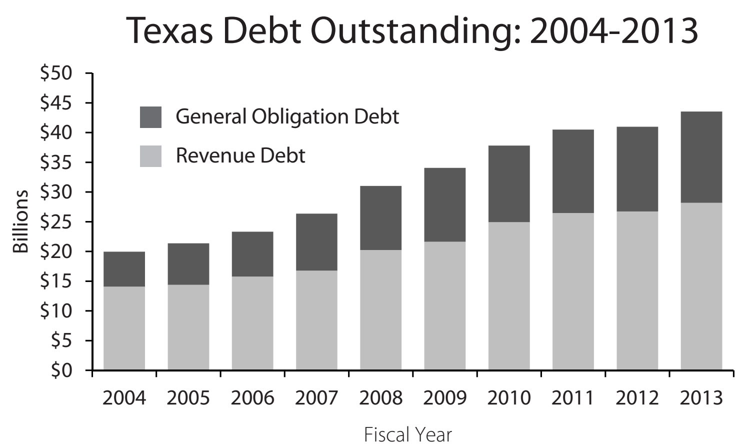
State Debt

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 such things as transportation projects, water 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 burdens Texans with higher tax rates and other fees either now or in the future. While new debt for these initiatives may be deemed necessary, legislators should limit increasing debt and make the cost more transparent so that Texans today will understand the level of burden it will have on current and future generations.

The Texas Comptroller has taken beneficial steps in this direction by providing valuable information on the Comptroller's website texastransparency.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 2004 to 2013, total state debt outstanding increased by an astounding 118% to $43.5 billion, according to the Texas Bond Review Board. Of this total, there are two types of debt: General Obligation (GO) debt and Non-General Obligation Debt—also known as Revenue debt (see figure).

As defined by the Comptroller, "General Obligation (GO) debt is legally secured by a constitutional pledge of the first monies coming into the State Treasury 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 the voters. GO 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 increased by 161% to $15.3 billion.

Also noted by the Comptroller, "Revenue debt is legally secured by a specific revenue source(s), does not require voter approval, and usually has a 20 to 30 year final maturity depending on the project to be financed." Over the last decade, Revenue debt increased by 100.2% to $28.2 billion.

If these trends continue, Texans will be burdened with higher taxes and fees. A good metric of the debt burden on each Texan is debt-per-capita. Total debt-per-capita in Texas increased over the last decade from $1,085 to $1,646, a costly 52% increase potentially stifling future prosperity for every man, woman, and child in the Lone Star State.

Using the U.S. Census Bureau's 2011 state debt-per-capita levels (latest data for each state) to compare the 10 most-populous states, Texas had the ninth lowest state debt-per-capita burden of $1,479 per Texan. The three states with the highest debt burden in order of magnitude are New York, Illinois, and California. The state with the lowest debt burden is Georgia.

continued on back

While Texas has done relatively well managing its debt principal, the debt service that includes the principal and interest over the life of outstanding debt is substantially higher than the $43.5 billion principal amount. The Texas Comptroller notes that if interest each year through 2019 and beyond is included, total debt service is $75.5 billion—almost two times the reported principal amount.

As a percentage of unrestricted General Revenue, the Constitutional Debt Limit (CDL) for debt service is 5%. Calculations by the Texas Bond Review Board show that debt service on outstanding debt (1.3%) and debt service on outstanding debt plus estimated debt service for authorized but unissued debt (3.0%) fell below the CDL at the end of FY 2013.

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

The Facts

- From FY 2004 to FY 2013, total state debt outstanding increased by 118% to $43.5 billion.
- Total debt-per-capita in Texas increased over the last decade by 52% from $1,085 to $1,646 per person.
- The Texas Comptroller notes that if interest each year through 2019 and beyond is included, total debt service is $75.5 billion.

Recommendations

- Legislators should limit debt increases and provide more debt transparency to educate Texans on the true cost of bond proposals.
- Legislators should make it mandatory to include on ballots not only the total principal cost of debt but also the total cost with interest payments.
- House Bill 14 in the 83rd Legislative Session provides a good framework to provide greater financial disclosure of public finances.

Resources

Debt Affordability Study by Texas Bond Review Board (Feb. 2014).

Shining a Light on Local Spending and Debt: Testimony on HB 14 by James Quintero (Mar. 2013).

Debt at a Glance by Texas Comptroller of Public Accounts (Sept. 2013).

Your Money and Local Debt by Texas Comptroller of Public Accounts (Sept. 2012).

900 Congress Ave., Ste. 400, Austin, Texas 78701 | 512.472.2700 phone 512.472.2728 fax | www.TexasPolicy.com