

Red Ink Rising: Local Government Debt

Texas' local governments are awash in a sea of red ink. In fiscal year 2018, the unpaid principal balance owed by cities, counties, school districts, and special districts grew to \$228.6 billion or more than \$8,000 owed for every man, woman, and child in the Lone Star State. When both principal and interest are accounted for, local government debt surges to \$354.6 billion or a staggering \$12,500 owed per capita.

Of Texas' \$354.6 billion in total local debt, school districts owe the largest share. In fiscal year 2018, ISDs had accumulated \$133.2 billion or 37.6 percent of the whole. That's a \$6.6 billion increase over the prior year and works out to be an estimated \$24,675 owed per student enrolled in K-12 public schools.

Cities are the second most indebted type of local government. Combined, Texas cities owe \$111.5 billion or 31.5 percent of the total. Special district debt amounts to \$89.5 billion or 25.2 percent, while county government debt is a more modest \$20.3 billion or 5.7 percent.

Total Local Debt in Texas, FY 2018*				
	Principal	Interest**	Total Debt Service	% of Total
Public School Districts	\$84,089,978,300	\$49,152,085,650	\$133,242,063,950	37.6%
Cities, Towns, Villages	\$74,589,848,110	\$36,926,827,696	\$111,516,675,805	31.5%
Water Districts and Authorities	\$29,940,930,375	\$13,617,172,444	\$43,558,102,819	12.3%
Other Special Districts and Authorities	\$17,126,785,073	\$14,767,394,650	\$31,894,179,723	9.0%
Counties	\$13,949,010,203	\$6,324,827,127	\$20,273,837,330	5.7%
Community and Junior Colleges	\$5,260,949,715	\$2,544,959,262	\$7,805,908,977	2.2%
Health / Hospital Districts	\$3,673,321,307	\$2,599,112,365	\$6,272,433,672	1.8%
Total	\$228,630,823,084	\$125,932,379,192	\$354,563,202,276	

* Estimated local debt service outstanding as of August 31, 2018. Preliminary and subject to change. Excludes Commercial Paper and Conduit debt. **Excludes Build America Bond subsidy.

Source: Bond Review Board

Too, local debt continues to pile up at an alarming rate. In fiscal year 2009, local debt outstanding (principal only) stood at an estimated \$164.3 billion. Ten years later, local government indebtedness had grown to \$228.6 billion. That's a 10-year increase of \$64.3 billion or 39 percent. By comparison, Texas' population only grew by 18.4 percent.

How Texas Compares

For more context, consider how Texas ranks compared to some of its peers. Among the top 10 most populous states, Texas' local governments owe the second largest amount in the aggregate (\$229.4 billion), according to the latest Census Bureau data. Only California's local governments are more deeply indebted (\$269.3 billion). Similarly, Texas' local debt per capita (\$8,234) rates as the second highest amount among the biggest states. Only New York's local debt per capita (\$10,573) was a greater burden.

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Local Debt Outstanding: Ten Most Populous States				
	Principal Owed (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank
New York	\$208,759	60.3%	\$10,573	1
Illinois	84,311	56.8%	6,586	4
California	269,264	64%	6,860	3
Texas	229,409	82.6%	8,234	2
Pennsylvania	80,078	63%	6,264	5
Michigan	43,217	56.5%	4,353	8
Ohio	52,628	61.4%	4,531	7
Florida	115,346	77.6%	5,596	6
Georgia	42,907	76.4%	4,162	9
North Carolina	32,677	65.2%	3,220	10
Avg.	\$115,860	66.4%	\$6,038	-

Source: Bond Review Board

Figures based on data from the U.S. Census Bureau, State & Local Government Finances by Level of Government and by State: 2014-15.

The Cost and Consequences

The size and growth of local government debt presents a number of public policy challenges. First, taking on more debt generally means passing along higher taxes. In turn this can invite slower economic growth, fewer investment opportunities, and more pronounced affordability issues. Second, public debt is a tool in some sense, but if it's used to excess, then it becomes more akin to a crutch. In those cases, it can prop up government spending that might not otherwise exist and delay difficult decisions. Third, increased debt service requirements can crowd out government spending in other core areas. Finally, elevated debt levels can put an entity's credit rating at risk which could mean higher borrowing costs in the future.

Stemming the Tide of Red Ink

Lessening local governments' dependence on public debt should be a top priority for the 86th Texas Legislature. And while there is no silver bullet solution to the problem, there are a variety of different ways to make incremental changes for the better, 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. This will prevent 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.

In concert, these good government reforms have the potential to greatly improve the overall system by stressing two important elements: transparency and accountability. By focusing reform efforts largely in this direction, legislators will change the debt issuance process for the better, empower voters to make more informed decisions, and chart a more sustainable course.

