

State Debt

The Issue

Texas has a proven record of financial stability as it ranks fourth best in keeping state debt per capita low among the 10 most populous states. With historically high population growth rates accompanied by economic growth, Texas has remained 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, such as ranking only [16th nationwide in fiscal health](#), are raising concerns about the state's financial condition.

Rising state debt and lack of debt transparency 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 since 2013 and place increasing burdens on taxpayers. Providing key reforms to state debt will begin to lessen these burdens and move Texas toward sound fiscal management.

The **figure** below shows that total state debt outstanding increased by 69% to \$53 billion between fiscal years 2008 to 2017, according to the [Texas Bond Review Board](#).

This translates into an increase of 66% to \$1,731 owed per person in Texas. Of the total state debt outstanding, there are two types: general obligation (GO) debt and revenue (non-general obligation) debt.

GO debt "is legally secured by a constitutional pledge of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose" and "must be approved by a 2/3 vote of both houses of the legislature and a majority of Texas voters." This 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 has increased by 73% to \$18.7 billion.

Revenue debt "includes debt that is secured by a specific revenue source and some lease purchase obligations. Generally, non-general obligation debt does not require voter approval and is not considered 'debt' limited by the Texas Constitution." Revenue debt has increased by 69% to \$34.3 billion during the last decade.

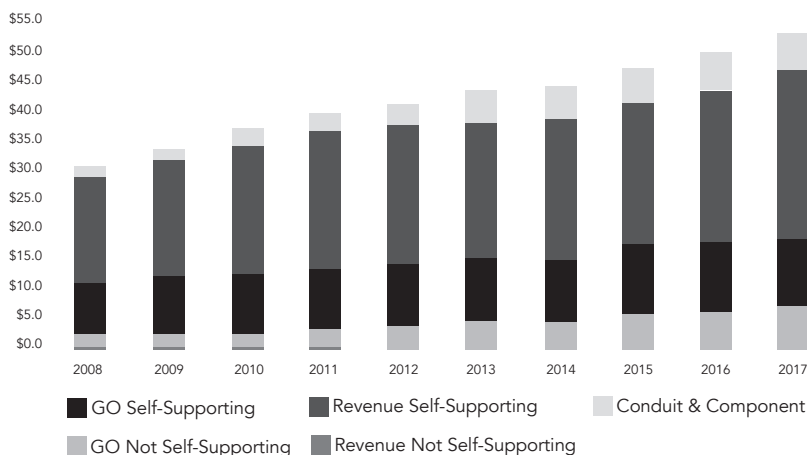
If these trends continue, Texans will be burdened with even higher taxes and fees. Out of the top 10 most populous states, Texas has the fourth highest level of state debt but ranks better at seventh in debt-per-capita. Of the top five most populous states, the three most debt-ridden states are New York, Illinois, and California, which all tend to enact big-government policies.

As a percentage of unrestricted general revenue for the previous three years, the constitutional debt limit (CDL) for debt service payable is 5%. The Texas Bond Review Board shows that debt service on outstanding debt is 1.4% and debt service on outstanding debt and on authorized but unissued debt is 0.9%, both falling below the CDL at the end of 2017. Although things look good on the surface, debt service will cut into spending on other programs and may lead to even higher taxes on Texans, slowing economic prosperity.

Debt outstanding does not tell the whole story. While Texas has done relatively well managing its debt principal, debt service outstanding over the life of debt outstanding is substantially higher than the \$53 billion. The Texas Bond Review Board notes that total debt service outstanding is \$87.2 billion—65% more than the reported principal amount.

By controlling spending and increasing debt transparency, Texans can have a better sense of whether state lawmakers are being good stewards of their tax dollars.

Texas State Debt Outstanding for Fiscal Years 2008 to 2017



Source: Texas Bond Review Board

The Facts

- From FY2008 to 2017, total state debt outstanding increased by 69% to \$53 billion.
- Total debt outstanding per capita in Texas increased over the last decade by 66% to \$1,731 per person.
- The Texas Bond Review Board notes that total debt service outstanding, which includes principal and interest owed, is \$87.2 billion, or roughly \$3,160 per Texan.

Recommendations

- Provide ballot box transparency by requiring inclusions of total debt service outstanding needed to fully pay the proposed debt on time and an estimate of the proposed debt's influence on the average Texan.

- Scrutinize all budget areas by implementing zero-based budgeting to spend taxpayer money from general revenue funds instead of issuing debt.
- Use surplus taxpayer dollars for tax relief instead of paying down state debt.

Resources

[Reducing the Burden of Texas' State Liabilities on Current and Future Generations](#) by Vance Ginn, Talmadge Heflin, and Melissa Schlosberg, Texas Public Policy Foundation (Feb. 2017).

["Fragility of Texas' State Debt and Public Pensions"](#) by Vance Ginn, Texas Public Policy Foundation (Feb. 23, 2017).

[Debt Affordability Study](#) by Texas Bond Review Board (Feb. 2017).

