

SUBJECT: Constitutional limit on state debt covered by general revenue

COMMITTEE: Financial Institutions — favorable, without amendments

VOTE: 9 ayes — Marchant, Gutierrez, Ehrhardt, Elkins, Giddings, Grusendorf, Patterson, Smith, Solomons

0 nays

0 absent

WITNESSES: For — Bill Allaway, Texas Taxpayers and Research Association

Against — None

BACKGROUND : State debt is limited by the Constitution and by statute. Art. 3, sec. 49 of the Constitution prohibits state borrowing except to supply casual deficiencies of revenue of less than \$200,000, repel invasion, suppress insurrection or defend the state. This provision has been amended about 20 times to authorize the issuance of general obligation bonds, which are backed by the full faith and credit of the state.

VACS art. 717k-7, sec. 8, prohibits the Legislature from authorizing general obligation or revenue bonds or large lease-purchase agreements designed to be repaid from general revenue if the resulting annual debt service from the general revenue fund would be more than five percent of the average amount of general revenue (excluding constitutionally dedicated funds) over the preceding three fiscal years.

DIGEST: HJR 59 would amend the Constitution to prohibit the Legislature from authorizing additional state debt if the resulting annual debt service on state debt payable from the general revenue fund exceeded five percent of the average amount of general revenues, excluding constitutionally dedicated revenues, for the preceding three fiscal years.

“State debt payable from the general revenue fund” would be defined as general obligation and revenue bonds, including authorized but unissued bonds, and lease-purchase agreements in amounts greater than \$250,000 that

were designed to be repaid with state general revenues. The term would not include bonds that, although backed by the full faith and credit of the state, were reasonably expected to be paid from other revenue sources and not expected to create a draw on general revenues.

Bonds or agreements that were expected to be repaid from other revenue sources but that subsequently required the use of state general revenue would be considered “state debt payable from the general revenue fund” until (1) they were backed by insurance or another form of guarantee that ensured payment from another source; or (2) the issuer demonstrated to the satisfaction of the Bond Review Board that the bonds no longer required payment from general revenue, and the board so certified to the Legislative Budget Board.

The proposal would be presented to voters at an election on November 4, 1997. The ballot proposal would read: “The constitutional amendment limiting the amount of state debt payable from the general revenue fund.”

**SUPPORTERS
SAY:**

HJR 59 would make the reasonable debt limit restriction currently set in statute more effective by placing it in the Constitution and giving voters the final say over the amount of debt the Legislature can incur.

Statutory debt restrictions provide little protection against rising debt, because the Legislature can simply raise the debt limit when it wants to borrow more money. There is no guarantee that the Legislature will not incur excessive debt. The federal government and federal budget deficit provide a prime example of the historical and political tendency to take care of today’s problems by spending tomorrow’s revenues. Excessive debt impinges on the ability to fund current government operations.

A constitutional provision must be approved by both the Legislature and the voters, thereby creating an effective check and balance on the amount of debt the taxpayers are willing to risk and support. Even though the Constitution requires voter approval on individual bond issuances, the voters now have no say over the establishment of an overall state debt service ceiling. The public policy debate involved in setting and calculating the debt service limit would certainly be understandable to informed voters.

The limit of five percent of the average amount of general revenue over the preceding three years, excluding constitutionally dedicated funds, is fair and reasonable. The debt service ratio at the close of fiscal 1996 for all authorized (issued and unissued) bonds was 2.7 percent, giving sufficient room to grow if more debt were needed in the future. The influence that inflation and other possible cost increases could have on pushing state debt close to the limit would be negligible because the debt service limit would be proportionate to general revenues, so as general revenues grow, the dollar amount of state debt could also grow without threatening the five percent limit.

OPPONENTS
SAY:

An amendment on debt load would be another unnecessary encumbrance on a state Constitution already weighed down with excess verbiage. The Texas Legislature has neither the propensity nor a compelling incentive to create excessive state debt, and current statute imposes an effective and sufficiently restrictive guideline. The Constitution also sufficiently prohibits state debt except under specified circumstances that have received voter approval.

State debt service formulas and state debt limit are best left to statute and approval by the Legislature. This system allows for smooth handling of unanticipated problems, such as the need for a massive prison building program, through bond issuance or other similar debt. Also, the standards used in setting debt limit and calculating state debt service are too complicated for most voters to make an informed vote. Many voters would assume the debt limit applies to all state debt, not just general revenue-backed debt, and many also would vote against any debt service limit increase regardless of the circumstances facing the state.

It would be short-sighted to institute a five percent debt limit in the Constitution; the limit should be set higher or made more flexible. Although current debt service is comfortably below the five percent limit, inflation and other factors could make a limit at this level unnecessarily restrictive in the future. Later, it may be very difficult to obtain voter approval of an additional constitutional amendment to raise the limit.

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OTHER
OPPONENTS
SAY:

The debt service limit currently set in statute is too high and should be lowered if proposed as a constitutional amendment. The state now operates comfortably with a debt service ratio of 2.7 percent; our debt should not go much higher than that. A three or four percent debt limit ratio would be more appropriate than the five-percent limit proposed by HJR 59.