



With oil prices low, Texas taxing entities prepare for tighter times  
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By Eva Ruth Moravec

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Bankruptcy lawyers are warning of "a tidal wave of business bankruptcy filings in 2016" that could colossally affect local tax entities whose budgets depend on the businesses' tax revenues.

Months of declining energy prices have led to some bankruptcies in the industry in Texas already, and more are expected to follow, said Beth Weller, bankruptcy partner at Linebarger Goggan Blair & Sampson LLP.

"In a bankruptcy, a company can sell property without paying taxes," Weller said. "Our local governments are mostly financed by property taxes. So if they're going to sell property, I want to make sure the taxes are paid at closing."

Recently, Fort Worth-based Quicksilver Resources went bankrupt and sold facilities in Hood County. While Texas law exempts tax liens in bankruptcy cases, Weller worked to ensure the sale included \$2.3 million in taxes for Hood County.

While Texas Association of Counties' Lonnie Hunt said he hasn't heard much panic from the counties related to bankruptcies, many of the state's rural counties – which he said account for 220 of the 254 counties in Texas – are preparing for a couple of years of belt-tightening.

"There are a lot of counties that took a hit last year that are bracing themselves. It's likely going to be worse this year," Hunt said, adding that some counties "won't have any choice but to" raise their tax rates. "Everybody would love to be diversified, but in reality, it's different in a rural county."

Because budgets are based on last year's valuations, cities and counties will have about a year before properties are taken off the tax rolls, said Dick Lavine, senior fiscal analyst at the Center for Public Policy Priorities.

"When cities and counties lose values, they raise their rates and get their money," Lavine said. "They're only going to be in trouble next year, when their values are really going to plummet and they have to raise their rates or make cuts."

School districts are a different story, but also have a yearlong lag as their state funding is based on last year's property values, said Chandra Villanueva, also at the CPPP.

"Everybody liked the year lag when prices were increasing," Villanueva said. "But when things are going downward, the state thinks [districts] are going to create higher taxes than they actually do, and that creates a hole."

She added, "It's going to put a lot of stress on the state budget and make the tax cuts seem even more foolish than they were before."

Texas' oil and gas industries have grown astronomically: From 2003 to 2013, employment in the sector rose by 97 percent, compared to 75 percent nationwide. In 2013, Texas accounted for 45 percent of national employment in oil and gas production and transportation, according to a story in the March edition of Fiscal Notes, the Texas Comptroller's economic review.

The growth slowed between the third quarter of 2014 and the third quarter of 2015, though. While the state overall saw a 2.3 percent increase in employment and 3.4 percent rise in wages during that time, according to the Texas Workforce Commission, the oil and gas industries lost 58,688 jobs - a 12.6 percent decline. In one year, total wages in the oil and gas industries in Texas dropped by \$1.89 billion, or 15 percent, according to the TWC.

David Green wrote in the Comptroller's economic review that regardless of the booms and busts, Texas' economy is well-diversified, with energy representing only 3.2 percent of the state's private, nonfarm jobs. "The state, along with many of its metropolitan areas, appears to have learned from the last oil bust, diversifying enough to survive and succeed despite downturns," Green wrote.

Some Texas entities are better prepared than others, the TAC's Hunt said, pointing to DeWitt County, in the heart of the 400-mile Eagle Ford Shale. County Judge Daryl Fowler told the Quorum Report that by keeping DeWitt County's tax rate steady, they were able to pay off – in full - \$9.5 million in debt that came up for call this year and expects to have \$30 million still in the bank at the end of this fiscal year.

"We established a budget policy and a tax policy that would allow us to make a soft landing at the end of the Eagle Ford Shale play, when others might be crashing around us," Fowler said.

In recent years, the county has appropriated \$78 million for road construction, boosted by some state dollars. He said the slowdown in drilling has lifted the burden on local roads, allowing for repairs.

"We're in good standing, but many counties through here repeated the same tax and budget policy errors that have happened before," like lowering tax rates and taking on debt, Fowler said. "When oil and gas values decline, the companies move away and drilling rigs move out, and the only people left to service the debts are your local folks."

As of 2014, La Salle County's 7,500 residents are responsible for \$94.5 million in tax-supported debt – about \$12,650 per capita, according to the Texas Comptroller's office.

Cuero, the DeWitt County seat, had a population of about 7,000 and about \$15.9 million in outstanding tax-supported debt in 2014, the comptroller's office reported. In 2014, Cuero ISD, with a student population of 2,100, had about \$65.9 million in outstanding debt, - \$31,301 per student – far more than any other district of its size.

Neither Cuero Mayor Sarah Post Meyer, Cuero ISD Superintendent Ben Colwell nor La Salle County Judge Joel Rodriguez responded to calls and emails seeking comment.

John Kennedy at Texas Taxpayers and Research said that counties and cities should not feel dramatic impacts from property taxes – except in cases of bankruptcies, if taxes can't be levied. But since school districts would depend on the state to fill any funding gaps, it's the state budget that causes him to worry and remember the education cuts in 2011.

"The concern is how long we're going to be in this low-priced environment," Kennedy said. "The last time the economy went south, we all remember what happened. That reduction in aid might happen again, depending on other spending pressures."