

# Shining a Light on Local Spending and Debt

## Testimony to the House Appropriations Sub-Committee on Budget Transparency and Reform on House Bill 14

Chair Crossover and Members of the Committee:

My name is James Quintero, and I am the fiscal policy analyst at the Texas Public Policy Foundation, a nonprofit, non-partisan free market think tank based here in Austin. Thank you for taking the time to discuss House Bill 14, a bill that would enhance local government debt transparency and create important safeguards related to local borrowing.

Briefly, the Foundation supports the passage of HB 14 because it would:

- Require more disclosure of basic financial information from cities, counties, school districts, community college districts, universities, and special districts that levy taxes or issue debt;
- Ensure that voters will be more informed when they vote on new debt and would limit the ability of governments to issue debt without voter approval; and
- Ensure that special purpose taxing districts demonstrate that they are serving the purpose(s) for which they were created.

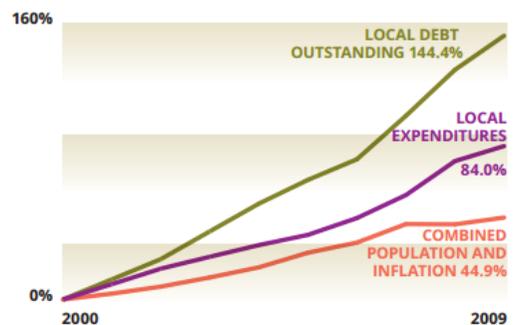
### The Need for HB 14

In September 2012, Texas Comptroller Susan Combs published Texas, *It's Your Money: Your Money and Local Debt*, an in-depth analysis of the size and growth of local government debt and the absence of certain necessary safeguards.

Among the key findings of the report:

- In 2011, local outstanding debt stood at \$192.7 billion while state debt totaled \$40.5 billion. Combined state and local debt outstanding totaled \$233.2 billion.
- On a per capita basis, total local debt amounts to \$7,507 for every man, woman, and child in Texas. State debt amounts to just \$1,577 per person.
- From fiscal years 2000 to 2009, total local government debt grew by 144.4 percent, far outstripping the growth of local spending, 84 percent, and combined population and inflation growth, 44.9 percent.
- In 40 Comptroller town halls across the state, not one person knew how much local debt they owed when asked.
- Taxpayers have been asked to approve billions in debt without sufficient context—often with no idea of current debt load or annual debt service payments. In the Comptroller's own words, "The reality is that few government entities make it easy for the taxpayers to figure out what they owe, what debt costs and what it pays for."<sup>1</sup> *continued on back*

**LOCAL DEBT SOARS: COMPARING DEBT, EXPENDITURES AND GROWTH**



Note: Between 2000 and 2009, the amount of outstanding Texas local government debt grew more quickly than local government spending. Data on debt and expenditures was unavailable for 2001 and 2003. Sources: U.S. Census Bureau, Bureau of Labor Statistics

## How HB 14 Would Educate and Empower Texas Taxpayers

While debt may be, in some instances, the best vehicle for financing long-term public projects, the reality is that Texas taxpayers do not have certain critical pieces of information available at their fingertips or at the ballot box to make this determination. Further, local spending and debt issues have been exacerbated by the issuance of Certificates of Obligations (COs) and the unmitigated growth of special taxing districts.

HB 14 would address these concerns in a variety of ways, including:

- Requiring cities, counties, school districts, community college districts, universities, and special districts to post revenue and expenditure information online annually to include details on long-term debt obligations;
- Giving voters more information at the ballot box, including:
  - Amount of proposed debt,
  - Principal outstanding on current taxable debt (before proposed bond issuance),
  - Estimated remaining interest on existing debt, and
  - Estimated total debt service on existing debt;
- Preventing local governments from issuing COs to pay for a purpose that voters have already rejected and making it easier for voters to require a vote on a CO through a petition;
- Limiting local entities' ability to issue COs without notice;
- Requiring special purpose districts to conduct and publish a self-evaluation that demonstrates to local taxpayers that it is accomplishing the purpose for which it was created; and
- Requiring school districts and charter schools to post online inventories of their existing facilities, and report the cost of facilities being built or renovated to better inform voters when deciding on new debt. This provision is important because most education debt is obtained for the purpose of school construction.

The Comptroller's findings clearly show a pressing need for greater financial disclosure of local public finances. Because of this, the Foundation urges the committee to pass HB 14.

Thank you for time. I look forward to answering any questions that you may have. ★

<sup>1</sup> Texas Comptroller of Public Accounts, *Texas It's Your Money: Your Money and Local Debt* (Sept. 2012) 19.

