



Testimony

Improving Debt Transparency in Bond Elections

Presented before the Senate Committee on Intergovernmental Relations on Interim Charge #6

by James Quintero, Director

Key Points

- Policymakers should be concerned about the size and growth of local government debt in Texas.
- A contributing factor is that voters do not have enough information provided to them at the ballot box to make an informed decision about new debt issuances.
- Voters should be provided with basic fiscal facts at the ballot box to better understand how their decisions will affect their community.

Chairman Lucio and Members of the Committee:

My name is James Quintero and I am the director of the Center for Local Governance at the Texas Public Policy Foundation, a free-market research institute based in Austin, Texas. Thank you for the opportunity to speak to you today about an issue of utmost importance: local government debt.

The interim charge before the committee is as follows:

***Charge 6:** Examine ways to improve government accountability in elections regarding the issuance of public debt. Include a review of the information that is currently provided to individuals in the voting booth and provide statutory recommendations, if necessary, to improve transparency.*

My remarks today will not only highlight the need for reform given the unsustainability of the current system, but also put forward recommendations on reforming the system.

The Unsustainability of the Status Quo

Local government debt in Texas has reached alarming levels.

As of fiscal 2015, local debt service outstanding, or the amount required to fully repay the principal and interest owed on a debt, totaled \$338.4 billion. That represents an increase of \$29.4 billion since fiscal year 2010. On a per capita basis, each Texan owes approximately \$12,318 for his or her share of the total debt.

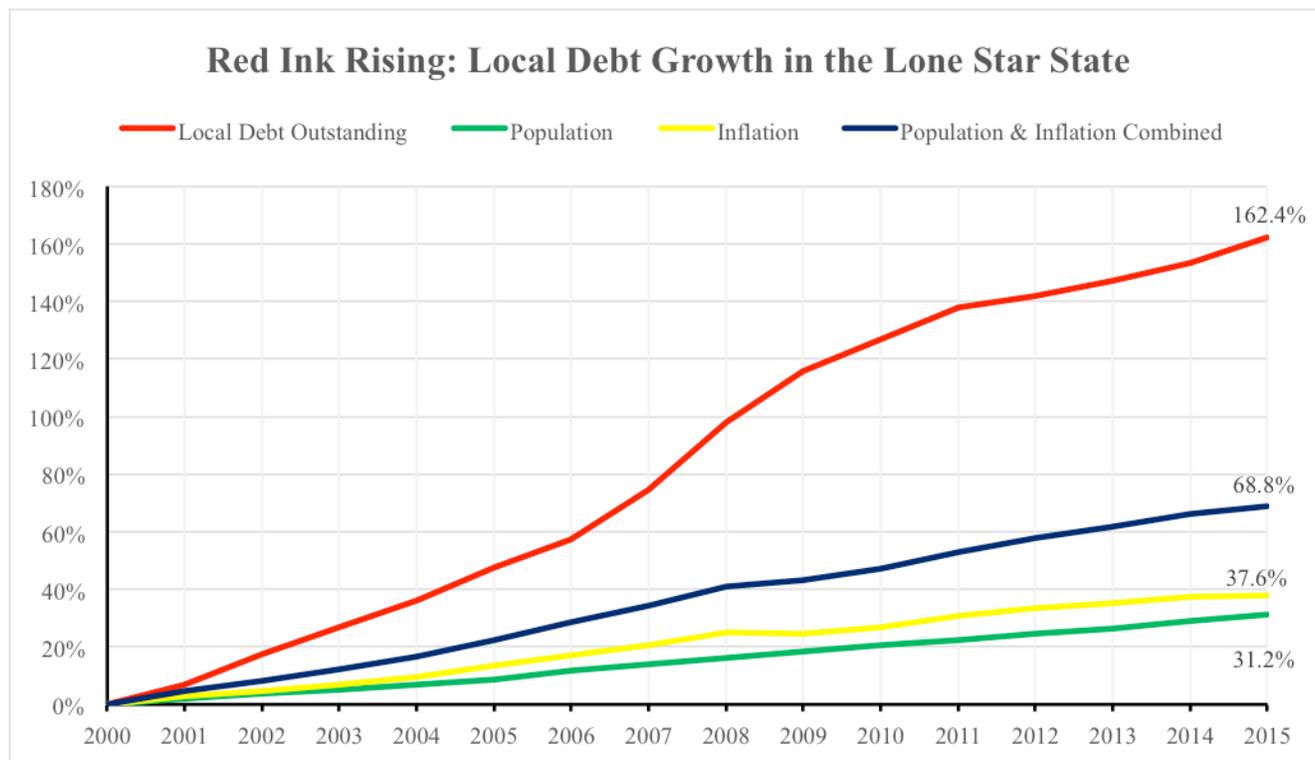
Of the \$338.4 billion owed by Texas' local governments, school district debt accounts for the largest portion at \$117.7 billion. With approximately 5.2 million children enrolled in K-12 public schools, the total debt service amount owed per student comes to \$22,577.[†] The next most indebted units of local government are municipalities with \$105.8 billion owed, followed by special districts with a combined \$93.3 billion in total debt, and county governments with \$21.5 billion.

Local government debt is not only substantial, but has also grown quickly.

From 2000 to 2015, Texas' population grew from an estimated 20.9 million to 27.5 million, an increase of 31.2 percent ([U.S. Census Bureau, Population Estimates](#)). Concurrently, inflation, as measured by the Consumer Price Index, rose by 37.6 percent ([U.S. Bureau of Labor Statistics, U.S. All items, 1982-84=100](#)). Hence, population and inflation increased by a combined 68.8 percent over the period.

[†] The Texas Education Agency's Texas Academic Performance Report, or TAPR, for 2014-15 estimates the number of total students at 5,215,282.

The uptick in population and inflation has been moderate over the past fifteen years, but the same cannot be said of the growth in local debt. From fiscal years 2000 to 2015, local debt outstanding soared by more than 162 percent, or almost 2.5 times faster than the rate of population and inflation growth. The average annual increase over the period was 6.7 percent.



Source: [Texas Bond Review Board](#)

How the Status Quo Invites a Greater Debt Burden

Two years ago, the *Austin American-Statesman* wrote an [article](#) examining the “surge in property tax bills.” The journalist writing the piece interviewed several Austinites, all of whom aired their grievances about skyrocketing property taxes—but Gretchen Gardner’s personal testimony stood out. Here’s what she said:

“I’m at the breaking point,” said Gretchen Gardner, an Austin artist who bought a 1930s bungalow in the Bouldin neighborhood just south of downtown in 1991 and has watched her property tax bill soar to \$8,500 this year. “It’s not because I don’t like paying taxes,” said Gardner . . . “I have voted for every park, every library, all the school improvements, for light rail, for anything that will make this city better. But now I can’t afford to live here anymore.”

Ms. Gardner lives and works in a city that she clearly enjoys (you’d have to in order to continue paying \$8,500 a year in taxes) but is effectively being forced to move because she has the equivalent of two car payments due every month payable to her local governments.

But that’s not the tragedy here.

The real tragedy is that she’s helped bring all of this on herself—and she doesn’t even know it.

What Gardner doesn’t realize is that when she voted for every park, every library, all the school improvements, for light rail, and for every other thing that local government officials wanted, she was also voting for the big tax increases that would eventually make it impossible for her to afford living in Austin.

Gardner, and many other voters just like her, fail to make the connection between new debt and new taxes. After all, when government borrows money, that money must be paid back—with interest. And since government has no money of its own, the assumption of more debt necessarily means the assumption of more taxes.

That Gardner failed to make this connection and understand the ramifications of her decisions at the ballot box is her own fault. I don't think anyone disputes that. But government is not blameless here.

Government has ownership of a system that provides too little information to voters at the point of decision-making. Right now, the only information required to be provided to voters at the ballot box for new debt propositions is the principal amount to be borrowed and a short description of the project(s). This is not enough information for people to make an informed decision about million and billion dollar proposals.

To better illustrate my point, consider this. In May 2016, McKinney ISD asked voters to approve the following bond proposition:

The issuance of bonds in the amount of \$220,000,000 for the construction, renovation, acquisition and equipment of school buildings and the purchase of necessary sites for school buildings and the levying of the tax in payment thereof.

Nowhere within the scope of that short paragraph of legalese did you hear anything about the actual cost of the bond, what kind of tax impact approving the bond was going to have on a person's household, or any mention of the fact that the district plans to spend \$50 million from this bond, coupled with another \$20 million or so from a previously approved bond, on a brand-new high school football stadium.

But what you did hear was a brief descriptor that is so broadly written it could be applied to almost anything and the principal amount that the McKinney school district wants to borrow, which as we know from our experience with capital appreciation bonds, can be misleading when it comes to the total cost.

As I have argued before the Legislature and as I will tell you today, that's not enough information for people to make an informed decision—and it's contributing to an environment of excessive debt.

Reforming the System to Improve Accountability

There are several reforms that the Legislature should enact to reform the current debt issuance process and improve debt transparency and accountability, including implementing ballot box transparency, requiring separate ballot propositions for large-scale projects, and eliminating the practice of "rolling polling."

Informing Voters at the Ballot Box

Current state law requires only that two bits of information be provided to voters for any given ballot proposition—"the amount their local government entity proposes to borrow and a general description of the purpose" ([Texas Comptroller of Public Accounts, 18](#)). That should be expanded to include information pertaining to:

- What is the tax impact of the bond, if approved, on the average homeowner; and
- The total cost of the bond, including principal and interest.

While some local governments may protest that this sort of reform will not work, it's important to note that the city of Dallas has already implemented a reform that, at least, incorporates part of this proposal.

In November 2014, voters in Dallas overwhelmingly approved a city charter amendment (Proposition 1) to require greater disclosure of future bond programs. The approved proposition reads as follows:

"Requiring Additional Disclosures on Ballots for Bond Programs. Shall Chapter XXI, Section 2 of the Dallas City Charter be amended to require that the ballot for the approval of a bond program must state the amount of bond issuance authorization, estimated amount of repayment including principal and interest based on current market conditions, and the purpose of the bonds?"

Again, the measure was overwhelmingly approved by voters. Almost 90 percent of area voters approved of the measure, which was the highest approval rating of any of the nine measures that were voted on during that election cycle.

Dallas Prop 1- Ballots for Bond Programs (Dallas County Results ONLY) (Vote for 1)		VOTE TYPE SUMMARY	CONTEST DETAIL MAP
430 of 430 Precincts Reporting			
		Percent	Votes
For (A Favor)		88.95%	142,366
Against (En Contra)		11.05%	17,684
			160,050

Separate Ballot Propositions

Another needed reform that the next Legislature should consider is to require separate ballot propositions for large-scale, single-item projects embedded in much larger bond proposals.

To go back to the McKinney ISD example, reforms should ideally be implemented so that big-ticket projects, like the school district's \$50 million stadium, could be voted on separately from proposals to build new schools and renovate old ones.

Moving forward with this sort of reform would allow voters to better decide which items are most appropriate for the community and abandon the "take-it-or-leave-it" approach in place today.

Ending Rolling Polling

Finally, the Legislature should move to end the practice of "rolling polling" whereby polling locations are moved during the early voting period. This practice, either intentionally or unintentionally, is far too susceptible to abuse, allowing for local officials to target certain voting populations to achieve a predetermined outcome.

Reforms should be made to require that early voting locations remain constant throughout the early voting period, and are not allowed to be changed on a day-by-day basis.

Thank you for your time today. I look forward to answering any questions. ★

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

