



# Testimony

## Local Debt Transparency

*Presented to the Senate Committee on Intergovernmental Relations*

by James Quintero, Director of the Center for Local Governance

Chairman Lucio & 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 nonprofit, free-market think tank based in Austin, Texas. I would like to thank the committee for examining such an important public policy matter today—local debt transparency.

The interim charge before the Committee today asks Members to examine the issue of local debt transparency and recommend ways to improve the process. More specifically, the charge states:

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.

This is an especially important charge given the size and nature of the problem it's aimed at: local government debt. As I will explain in detail momentarily, Texas' local debt burden threatens to become a major public policy problem if not addressed in a comprehensive manner, and with solutions that ensure an informed citizenry.

### Texas' Local Debt Problem

Debt held by Texas' cities, counties, school districts, and special districts has reached alarming levels. According to the Texas Bond Review Board (BRB), local debt outstanding reached more than \$225 billion in fiscal year 2014, representing almost 85 percent of total Texas debt. On a per capita basis, Texas' local debt burden amounts to just over \$8,500 owed per Texan.

This level of debt compares poorly to other similarly-sized states. Compared to the top ten most populous states, Texas' local debt per capita ranks as the second highest. Only New York has a higher local debt burden, with \$10,415 owed per person.

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES												
State	Total State and Local Debt				State Debt				Local Debt			
	Population (thousands)	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Capita Rank	Amount (millions)	% of Total Debt	Capita Amount	Capita Rank
New York	19,607	\$340,093	\$17,345	1	\$135,884	40.0%	\$6,930	1	\$204,209	60.0%	\$10,415	1
Illinois	12,874	146,233	11,359	2	64,302	44.0%	4,995	2	81,932	56.0%	6,364	5
California	38,063	419,751	11,028	3	153,529	36.6%	4,034	3	266,223	63.4%	6,994	3
<b>Texas</b>	<b>26,094</b>	<b>270,737</b>	<b>10,375</b>	<b>4</b>	<b>45,626</b>	<b>16.9%</b>	<b>1,749</b>	<b>9</b>	<b>225,110</b>	<b>83.1%</b>	<b>8,627</b>	<b>2</b>
Pennsylvania	12,770	129,428	10,135	5	46,199	35.7%	3,618	4	83,229	64.3%	6,518	4
Michigan	9,885	76,352	7,724	6	30,824	40.4%	3,118	5	45,528	59.6%	4,606	7
Florida	19,355	146,922	7,591	7	38,171	26.0%	1,972	7	108,751	74.0%	5,619	6
Ohio	11,551	81,238	7,033	8	33,602	41.4%	2,909	6	47,636	58.6%	4,124	9
Georgia	9,919	55,785	5,624	9	13,401	24.0%	1,351	10	42,384	76.0%	4,273	8
North Carolina	9,748	50,779	5,209	10	18,292	36.0%	1,876	8	32,488	64.0%	3,333	10
<b>MEAN</b>		<b>\$171,732</b>	<b>\$9,342</b>		<b>\$57,983</b>	<b>34.1%</b>	<b>\$3,255</b>		<b>\$113,749</b>	<b>65.9%</b>	<b>\$6,087</b>	

Note: Detail may not add to total due to rounding.  
Source: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 2012*, the most recent data available.

Source: Texas Bond Review Board, [2014 Annual Report](#), (Ch. 1, p. 9).

*continued*

Of course, local debt outstanding only includes only the principal amount, and thus accounts for a portion of the overall debt burden.\* A more comprehensive measure of total owed is local debt service outstanding, which includes principal and interest.†

In fiscal year 2015, local debt service outstanding for all cities, counties, school districts, and special districts in Texas amounted to more than \$338.3 billion, according to the BRB. On a per capita basis, the amount owed totals approximately \$12,250 per Texan.

The entities with the highest levels of total debt are school districts and cities, owing \$117.7 billion and \$105.8 billion respectively.

<b>DEBT SERVICE as of 8/31/2015</b>			
<i>(Preliminary — subject to change)</i>			
	<b>PRINCIPAL</b>	<b>INTEREST*</b>	<b>TOTAL DEBT SERVICE</b>
<i>Public School Districts</i>	\$72,322,671,024	\$45,422,886,675	\$117,745,557,699
<i>Cities, Towns, Villages</i>	\$68,747,240,053	\$37,073,187,296	\$105,820,427,349
<i>Water Districts and Authorities</i>	\$31,227,922,993	\$16,713,297,410	\$47,941,220,403
<i>Other Special Districts and Authorities</i>	\$15,473,229,922	\$15,997,089,812	\$31,470,319,734
<i>Counties</i>	\$14,275,914,149	\$7,253,847,573	\$21,529,761,722
<i>Community and Junior Colleges</i>	\$5,008,867,170	\$2,609,488,068	\$7,618,355,238
<i>Health / Hospital Districts</i>	\$3,468,066,588	\$2,767,737,771	\$6,235,804,359
<b>TOTAL</b>	\$210,523,911,899	\$127,837,534,605	<b>\$338,361,446,504</b>

\*Excludes Build America Bond subsidy

Source: Texas Bond Review Board

Texas’ local debt problem is not just in its size, but also in its rate of growth. According to the Texas Comptroller, from 2001 to 2011 local debt outstanding increased by 122.4 percent. Yet, over the same period, population and inflation (P&I) increased just 53.3 percent indicating that debt is outgrowing P&I by a factor of more than 2-to-1.

The size and growth of Texas’ local debt burden is not without consequence. From higher property taxes,‡ to diminished service provision, to credit rating risks, to questionable spending practices, there are a number of problems either associated with or rooted in Texas’ overreliance on local debt. Without meaningful change, it’s reasonable to suggest that these problems will persist.

### Too Little Information Contributing to an Environment of Too Much Debt

There are many factors contributing to the size and growth of Texas’ local debt predicament, but one of the biggest is a lack of information provided to voters at the ballot box.

Right now, current law requires that Texas voters only be provided with two pieces of information in the voting booth for a given proposition: “the amount their local government entity proposes to borrow and a general description of the purpose.”<sup>1</sup> This does not provide voters with enough detail about the proposed ballot initiative to make an informed decision—especially considering the incomplete and/or vague nature of the information provided.

One of the obvious flaws with the current system of providing only the principal amount to be borrowed is that it may, intentionally or not, downplay the true cost of a debt issuance. To illustrate this point, consider local governments’ use of capital appreciation bonds, or CABs, which allow the governing body to defer principal and interest payments for decades at a time. CABs allow local governments access to capital in the immediate sense, but at great cost, with the total repayment ratio sometimes nearing as much as 10-to-1. When CAB-financed projects are put before voters, only the principal amount to be borrowed is provided to voters, not the total cost of the bond which—again—can be vastly more than the original amount proposed.

\* Debt outstanding is defined by the Texas Comptroller’s report [Your Money and Local Debt](#) as “the principal owed over the remaining life of all debt issues.”

† Debt service outstanding is defined by the Texas Comptroller’s report [Your Money and Local Debt](#) as “the annual combined principal and interest amount needed to repay all debt on time and in full.”

‡ According to the Tax Foundation’s latest national rankings, Texas governments collected approximately \$1,600 per capita in property taxes, ranking as the 14<sup>th</sup> highest in the U.S.

Furthermore, providing the voters with only a subjective, “general description” of a proposed project can lead to vague and incomplete ballot propositions. The statement is often written in indecipherable legalese that can be interpreted in a variety of ways, some of which may not have been anticipated by the voting public.

It is not a stretch to suggest that many voters do not fully comprehend the propositions before them nor the consequences of the decisions they are being asked to make.

## The Uninformed Voter

The suggestion that voters are often unaware of the ramifications of their decisions is best illustrated by an excerpt from a May 2014 Austin American-Statesman article titled: [Surge in property tax bills spurs push to reform tax appraisal process](#).

From the article:

“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, who attended both meetings. “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. I’ll protest my appraisal notice, but that’s not enough. Someone needs to step in and address the big picture.” [emphasis mine]

Clearly, many citizens like Ms. Gardner do not see the connection between their votes for city services and entitlements, and their ever-increasing tax bills. Nor are they provided with any information at the point of decision-making to specify the financial impact that may be associated with the passage or failure of a particular proposition. Based on this and other anecdotal evidence, it is reasonable to suggest that the problem of the uninformed voter may be a serious issue.

## Informing Voters at the Ballot Box

There is no silver bullet solution for Texas’ evolving local government debt crisis. The problem is complex and multi-faceted, and requires more than a simple measure to solve. However, an important first step toward addressing the issue is to begin educating the public at the ballot box.

Arming Texans with basic financial information at the voting booth—of the same variety that individuals and families rely on to make intelligent household spending decisions—is critical to ensuring that sound public investment decisions are being made.

To that end, it’s ideal for the Legislature to require all local governments seeking to new debt or tax increases to provide a short-and-simple list of basic information along with each proposition. This added detail could include:

- The total principal and interest amount required to pay all the asking entity’s outstanding debt obligations;
- The estimated combined principal and interest required to pay the proposed bonds on time and in full;
- The estimated annual increase in property taxes or fees per household if the measure is approved.

With this information at their fingertips, we can expect that Texas voters will be in a better position to make informed financial decisions about the direction of their community.

Encouragingly, this simple-and-straightforward idea is one that resonated during the last legislative session. During the past session, almost 10 bills were filed in the Texas House and Senate that were related to improving financial transparency at the ballot box. These bills included:

- [SB 102](#), relating to ballot propositions authorizing political subdivisions to issue bonds.
- [SB 399](#), relating to ballot propositions authorizing certain political subdivisions to issue debt obligations.
- [SB 619](#), relating to ballot propositions authorizing certain political subdivisions to issue bonds.
- [SB 1041](#), relating to required disclosures in and to the length of ballot proposition language authorizing political subdivisions to issue bonds or impose or change a tax.
- [HB 134](#), relating to certain information included with ballot propositions for elections to authorize state and local general obligation bonds.

- [HB 1182](#), relating to ballot propositions authorizing political subdivisions to issue bonds.
- [HB 2961](#), relating to ballot language for a proposition to approve the issuance of bonds by a city.
- [HB 2962](#), relating to ballot language for a proposition to approve the issuance of bonds by a county.
- [HB 2963](#), relating to ballot language for a proposition to approve the issuance of bonds by a school district.

Given the heightened level of debt and this Committee's commendable recognition of the need added transparency measures, I fully expect that reform will be realized in the next legislative session. Requiring transparency at the ballot box will go a long way toward creating a more informed citizenry and a more fiscally responsible climate.

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

## Endnote

<sup>1</sup> Texas Comptroller of Public Accounts. 2012. [Your Money and Local Debt](#), September: 18.

## 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.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

