

Testimony before the House Committee on Special Purpose Districts

Bringing Greater Government Transparency to Special Purpose Districts

by James Quintero, Director of the Center for Local Governance

Chairman Bonnen 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 taking this opportunity to initiate a review of Special Purpose Districts (SPDs) and to consider ways to improve transparency and accountability among the districts.

The focus of my remarks today will address the latter half of today's charge* and focus on ways to promote transparency among the districts, especially as it relates to local government debt.

Local Government Debt

As you may know, local government debt in Texas has reached alarming levels. According to the latest available data from the Texas Bond Review Board, the principal amount owed by all local governments in Texas exceeded \$200 billion in fiscal year 2013. On a per capita basis, the principal amount owed by all local government totaled approximately \$7,570 per Texan, which ranks as one of the larger debt burdens in the nation.†

Of course, local debt consists of more than just principal repayments. Interest must also be accounted for.

The combined local debt service outstanding for all cities, counties, school districts, and special districts in Texas totaled \$328.1 billion in fiscal year 2013, according to the Texas Bond Review Board. On a per capita basis, the total repayment amount owed by all local governments totaled approximately \$12,400 per Texan.

Local government debt in Texas is not only immense, but it is also accumulating rapidly.

From fiscal years 2003 to 2013, local debt outstanding has grown from \$102.6 billion to \$200.2 billion, representing an increase for the period of 95 percent. By contrast, population and inflation in-

creased over the same period by just 46 percent. Local debt service outstanding estimates for a similar period were unavailable online at the time of this hearing.

Special Purpose District Debt

Of the total debt owed by all local governments, debt held by special districts comprises a smaller but faster-growing portion of the whole (*see charts on back*).

In fiscal year 2009, local debt service outstanding among the districts totaled \$84 billion. Just a short time later in FY 2013, total SPD debt had grown to \$97.3 billion, an increase of \$13.2 billion or 15.7 percent over the period. As a raw dollar increase, SPDs accrued more debt than any other type of local governmental entity. As a percent increase, debt held by SPDs grew at the second fastest rate, behind only county debt.

Recommendations

Earlier this week, several organizations—including the Texas Public Policy Foundation, Texas Public Policy Action, Americans for Prosperity—Texas, Empower Texans, and Grassroots America: We the People—launched a coalition effort calling for 6 local government debt transparency, accountability, and election reforms. A summation of these reforms¹ includes:

- Arming voters with basic financial information at the ballot box.
- Avoiding using long-term debt to finance short-term expenses.
- Ending the practice of using exotic public financing tools, such as capital appreciation bonds, to get around existing debt limits.
- Preparing quarterly auditing reports to provide details on how bond proceeds are being spent.

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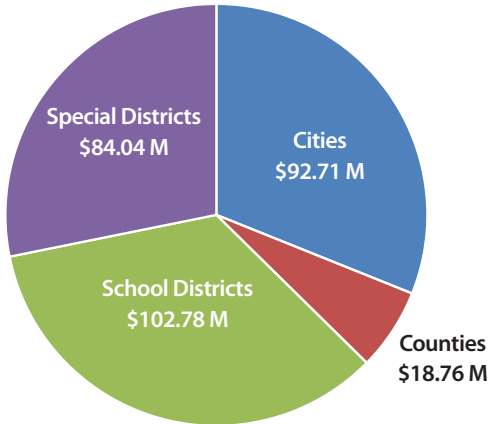
* Charge #1: Conduct a comprehensive review of existing special purpose districts in the state. Study how special districts interact with other local governments and local taxpayers during and after their creation. Examine circumstances under which special districts are accountable to local taxpayers and make recommendations on ways to increase spending transparency among districts.

† In a September 2012 publication—Your Money and Local Debt—the Texas Comptroller ranked Texas' local debt per capita as the second highest among the top 10 most populous states, behind only New York.

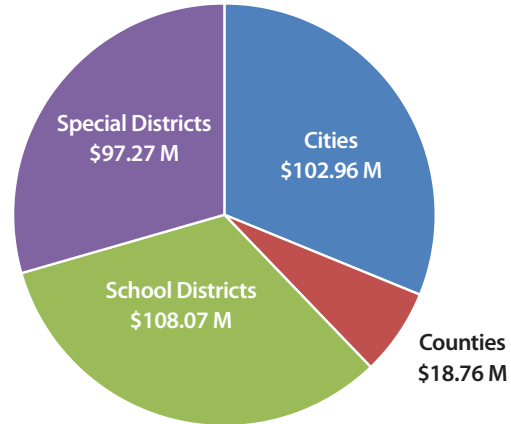
Local Debt Service Outstanding, FY 2009 & 2013

	FY 2009	FY 2013	\$ Increase	% Increase
Cities	\$92,718,206,208	\$102,966,602,537	\$10,248,396,329	11.1%
Counties	\$18,762,590,784	\$21,938,300,013	\$3,175,709,228	16.9%
School Districts	\$102,789,531,732	\$108,076,467,330	\$5,286,935,598	5.1%
Special Districts	\$84,045,539,661	\$97,278,843,851	\$13,233,304,189	15.7%
Total	\$298,315,868,386	\$328,072,087,294	\$29,756,218,909	10.0%

Local Debt Service Outstanding, FY 2009



Local Debt Service Outstanding, FY 2013



Source: Texas Bond Review Board

- Separating ballot propositions for large-scale projects.
- Encouraging fair elections by requiring that a minimum number of registered voters support the ballot proposition and end the practice of “rolling polling.”

While only some of these reforms are applicable to special purpose districts, I think the first is an important debt reform that fits well within the committee’s charge and would do much to advance the goal of bringing transparency to special purpose districts.

Currently, the voting public has very little information about a proposition when deciding on its merits at the ballot box. That limited information consists of two items: “the amount their local government entity proposes to borrow and a general description of the purpose.”² Absent is any data on existing debt levels, anticipated tax impact, per capita debt estimates, or total debt service repayment projections.

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, the Legislature should require all local governments seeking to issue bonds to provide voters with a short list of simple facts along with each proposition. Added information 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; and
- The estimated tax impact for the average affected taxpayer. ★

¹ Texas Public Policy Foundation, *Ensuring Debt Transparency, Accountability, and Fair Elections* (Sept. 2014).

² Texas Comptroller of Public Accounts, *Your Money and Local Debt* (Sept. 2012) 18.

