



Improving Debt Transparency in Bond Elections

Presented before the House Committee on Elections on Interim Charge #3

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.

Madame Chair and Members of the Committee:

My name is James Quintero and I'm 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 address the committee today on the following charge:

Charge #3: Evaluate options to improve the transparency of local bond elections, including but not limited to: current processes used to educate voters about how tax dollars will be spent, the time of year bond elections are held, and the description of bond proposals on the ballot. Make appropriate legislative recommendations.

My prepared remarks will explore the current fiscal environment as well as put forward recommendations consistent with the charge before the committee.

The Case for Reform

The size and growth of local government debt in Texas has reached alarming levels.

According to the Texas Bond Review Board's [2015 Annual Report](#), local debt outstanding* exceeded \$225 billion in fiscal year 2015, amounting to a per capita debt burden of \$8,350 owed by every man, woman, and child in the state. Compared to the top ten most populous states in the nation, Texas' local debt per capita ranked as the second greatest burden, behind only New York's total (+\$10,646). Local debt per capita averaged \$6,083 across all of the megastates.

Table 1.6
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	19,746	\$346,238	\$17,535	1	\$136,014	39.3%	\$6,888	1	\$210,224	60.7%	\$10,646	1
Illinois	12,881	148,689	11,543	2	63,660	42.8%	4,942	2	85,028	57.2%	6,601	4
California	38,803	420,284	10,831	3	152,186	36.2%	3,922	3	268,098	63.8%	6,909	3
Texas	26,957	264,723	9,820	5	39,625	15.0%	1,470	9	225,098	85.0%	8,350	2
Pennsylvania	12,787	130,238	10,185	4	47,021	36.1%	3,677	4	83,217	63.9%	6,508	5
Michigan	9,910	76,315	7,701	6	30,377	39.8%	3,065	5	45,938	60.2%	4,636	7
Florida	19,893	146,427	7,361	7	37,892	25.9%	1,905	8	108,535	74.1%	5,456	6
Ohio	11,594	82,483	7,114	8	33,133	40.2%	2,858	6	49,350	59.8%	4,257	8
Georgia	10,097	55,679	5,514	9	13,293	23.9%	1,317	10	42,386	76.1%	4,198	9
North Carolina	9,944	51,524	5,181	10	19,055	37.0%	1,916	7	32,469	63.0%	3,265	10
MEAN		\$172,260	\$9,279		\$57,226	33.6%	\$3,196		\$115,034	66.4%	\$6,083	

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, 2012-2013*, the most recent data available.

Source: [Texas Bond Review Board](#)

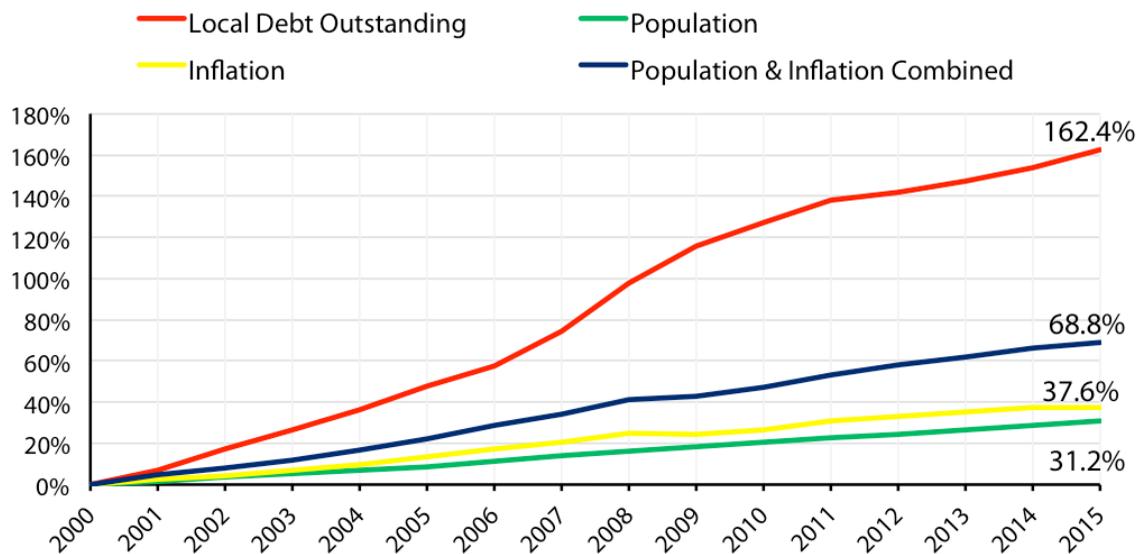
Local government debt is not only substantial, but has also grown quickly.

* Local debt outstanding is [defined](#) as "the amount of unpaid principal on a debt [held by a political subdivision of the state] that will continue to generate interest until paid off."

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 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.

Red Ink Rising: Local Debt Growth in the Lone Star State



Source: [Texas Bond Review Board](#)

Allowing local government debt to reach such heights and grow with such speed has not been without consequence. For many communities, soaring local government debt has meant an increase in taxation, a decrease in the provision of core services, a lower credit rating, or some combination thereof. For some, these less-than-desirable outcomes have also come about unexpectedly.

How the Status Quo Invites a Greater Debt Burden

Two years ago, the *Austin American-Statesman* published an [article](#) examining the “surge in property tax bills.” The author 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 2 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 the dearth of information provided to voters at the ballot box, consider this McKinney ISD's May 2016 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 total cost of the bond, the tax impact that approving the bond would have on the average resident, 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.

It's quite clear that improvements are needed.

Improving Local Debt Transparency & Accountability

There are several reforms needed to improve the debt issuance process, 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 items of information be disclosed at the point of decision-making—“the amount their local government entity proposes to borrow and a general description of the purpose” ([Texas Comptroller of Public Accounts, 18](#)). At a minimum, that selection should be expanded to include:

- The estimated impact on the average area homeowner if the bond is approved; and
- The total cost (including principal and interest) to repay the bond in full and on time.

While some may protest that this sort of reform is unworkable, it's important to note that the city of Dallas has already implemented a reform along these lines.

In November 2014, voters in Dallas overwhelmingly approved a city charter amendment (Proposition 1) requiring greater disclosure of future bond programs. The proposition approved by voters 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?”

The appetite for this sort of good government initiative was apparent. 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 opportunity to reform the system involves requiring separate ballot propositions for large-scale, single-item projects embedded in much larger bond proposals. This would address a common tactic used to sustain and perpetuate the status quo.

As with the McKinney ISD example, controversial spending items are often packaged together with critical infrastructure projects to improve their chances of being approved by voters. This practice can significantly inflate the overall cost of a bond proposition (McKinney ISD's \$50 million stadium represented more than 20 percent of the total \$220 million bond). And of course, the assumption of this additional debt means additional taxes, which in today's environment of high property taxes is problematic, to say the least.

To address this issue, the Legislature would do well to reform this practice so that major capital improvements, above a certain cost threshold, are put before voters in a separate fashion. This will allow voters to better decide which items are in the community's best interests instead of being forced to accept a "take it or leave it" approach.

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 are held constant throughout the early voting period, and 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.

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.

