Texas Public Policy Foundation

Reform Local Debt Issued Without Voter Approval

In fiscal 2014, local government debt totaled more than $333 billion or approximately $12,500 per Texan, according to the Texas Bond Review Board. Since fiscal 2009, the total debt owed by Texas' cities, counties, school districts, and special districts grew by almost $35 billion.

A contributing factor in the overall growth of local government debt has been the use of Certificates of Obligation (COs). According to the Texas Comptroller, certificates of obligation: "allow certain cities, counties and certain hospital or health districts to issue debt without voter approval (unless a referendum is petitioned) and are backed by tax revenue, fee revenues or a combination of the two."

The Local Government Code allows COs to be issued for: 1) the construction of any public work; 2) the purchase of materials, supplies, machinery, buildings, land, and rights-of-way; and 3) the payment of professional services, including those provided by tax appraisers, engineers, architects, attorneys, map makers, auditors, financial advisors, and fiscal agents.

CO Debt on the Rise

Local governments authorized to issue certificates of obligation have come to rely increasingly on this type of debt. According to the Texas Bond Review Board's Local Government Annual Report 2014: "CO debt outstanding has increased by 107.4% ($7.10 billion) from $6.61 billion outstanding in fiscal 2004 to $13.71 billion outstanding at August 31, 2014." Over the same period, combined population and inflation increases totaled just 45.5 percent.

Municipalities harbor the greatest level of CO debt. According to the Texas Bond Review Board: "Cities accounted for 74.4 percent of the total CO debt outstanding," as of fiscal 2014.

CO Debt Issued to Get Around Voters

In some instances, local governments are issuing debt without voter approval even though voters have rejected those measures at the ballot box. For example, one county issued $30 million in CO debt after voters "rejected a $200 million bond for roads."

CO Debt In Need of Reform

House Bill 1399 and Senate Bill 310 seek to improve the issuance of certificates of obligation by instituting several good governance measures, including:

- ***Protecting Public Input.*** Institutes safeguards that prohibit political subdivisions from issuing COs to achieve a purpose that voters rejected, except in instances of "grave public necessity."
- ***Achieving Greater Government Transparency.*** Requires a lengthier notification period and that certain basic financial information be made available online to the public prior to the issuance. Also requires an issuer to maintain a website.
- ***Making it Easier for Voters to Appeal.*** Reforms the petition process so that 5 percent of the total number of voters that voted in the most recent gubernatorial election can compel a public vote.

It's important to stress: these reforms would not substantially impair or prohibit the use of COs.

March 2015 – James Quintero, Director of the Center for Local Governance, Texas Public Policy Foundation