



# OLR RESEARCH REPORT

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## DEBT AFFORDABILITY ANALYSIS

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You asked for information on debt affordability analysis. Specifically, you want to know what it consists of, which states use it, and who conducts it.

The description of debt affordability in this report is taken from *The Encyclopedia of Public Administration and Public Policy* (Simonsen et al., "Debt Affordability," pgs. 308-312).

### DEBT AFFORDABILITY ANALYSIS

Debt affordability analysis is a financial planning tool states and local governments use in the capital planning process to evaluate how much debt they can afford. It is an assessment of their debt, relative to the resources available for repaying that debt. State and local governments generally measure debt affordability by (1) calculating the relationship between their debt levels and resources and (2) comparing their debt statistics to industry standards and those of similar governments. They can use this analysis to estimate how much debt they can afford to issue in the future.

We identified 11 states that use debt affordability analysis: California, Florida, Maryland, Massachusetts, New Mexico, New York, North Carolina, Texas, Vermont, Virginia, and Washington. Attachment 1 lists each state and provides the entity that conducts the analysis, debt ratios it considers, and a link to its most recent report. In four of the states, an advisory committee conducts the analysis (Maryland, North Carolina, Vermont, and Virginia). In the other states, an executive branch agency, debt oversight board, state comptroller, or treasurer conducts it.

## ***Debt Ratios***

State and local governments use a number of debt ratios to measure the relationship between their debt service obligations and their ability to repay debt. These commonly include:

- debt per capita – total indebtedness divided by the population
- debt as a percentage of real market value – debt divided by the real market value of all taxable property
- debt as a percentage of personal income – debt divided by a measure of community wealth
- annual debt service as a percentage of general and debt service fund expenditures – portion of general and debt service funds that goes to debt service
- annual debt service as a percentage of operating expenditures – portion of total operating expenditures that goes to debt service
- impact of the debt on the tax rate – portion of the tax rate that is dedicated to paying tax-supported debt
- impact of the debt on the average household – monetary burden on the average household in the community

## ***Comparison to Industry Standards and Similar Governments***

State and local governments interpret their debt ratios by comparing them to “rule of thumb” industry standards and those of similar governments. Moody’s Investors Service and Standard & Poor annually publish debt statistics which state and local governments can use to assess their debt positions. They may also benchmark their ratios against those of comparable governments, based on population, bond rating, and revenue mix.

**Table 1: State Debt Affordability Analysis**

<b>State</b>	<b>Entity Conducting the Analysis</b>	<b>Debt Ratios Used</b>	<b>Most Recent Report</b>
California	State Treasurer	<ul style="list-style-type: none"> <li>• Debt as a percentage of general fund revenues</li> <li>• Debt as a percentage of personal income</li> <li>• Debt per capita</li> <li>• Debt as a percentage of gross domestic product</li> </ul>	<a href="#">Debt Affordability Report</a> , October 2010
Florida	State Board of Administration's Division of Bond Finance	Debt service as a percentage of revenues	<a href="#">2010 Debt Affordability Report</a> , December 2010
New Mexico	Department of Finance and Administration	<ul style="list-style-type: none"> <li>• Debt per capita</li> <li>• Debt as a percentage of personal income</li> </ul>	<a href="#">Debt Affordability Study</a> , October 2010
New York	Office of the State Comptroller	<ul style="list-style-type: none"> <li>• Debt as a percentage of personal income</li> <li>• Debt outstanding per capita</li> <li>• Debt service as a percentage of revenues</li> </ul>	<a href="#">Debt Impact Study</a> , March 2010
North Carolina	Debt Affordability Advisory Committee	<ul style="list-style-type: none"> <li>• Debt service as a percentage of general fund tax revenues</li> <li>• Debt as a percentage of personal income</li> <li>• Rate of debt retirement</li> </ul>	<a href="#">Debt Affordability Study</a> , February 2010
Massachusetts	Governor's Executive Office for Administration & Finance	Debt service as a percentage of revenues	<a href="#">FY 2011 – 2015 Five-Year Capital Investment Plan</a> , October 2010
Maryland	Capital Debt Affordability Committee	<ul style="list-style-type: none"> <li>• Debt as a percentage of personal income</li> <li>• Debt service as a percentage of revenues</li> </ul>	<a href="#">Report of the Capital Debt Affordability Committee on Recommended Debt Authorizations for FY 2012</a> , September 2010

<b>State</b>	<b>Entity Conducting the Analysis</b>	<b>Debt Ratios Used</b>	<b>Most Recent Report</b>
Texas	Texas Bond Review Board (state's debt oversight agency) in consultation with the Legislative Budget Board	<ul style="list-style-type: none"> <li>• Debt service as a percentage of unrestricted general revenue</li> <li>• Debt service as a percentage of budgeted general revenue</li> <li>• Debt as a percentage of personal income</li> <li>• Debt per capita</li> <li>• Rate of debt retirement</li> </ul>	<a href="#">Debt Affordability Study</a> , February 2010
Vermont	Capital Debt Affordability Advisory Committee	<ul style="list-style-type: none"> <li>• Debt per capita</li> <li>• Debt as a percentage of personal income</li> <li>• Debt service as a percentage of revenues</li> </ul>	<a href="#">Recommended Annual Net Tax-Supported Debt Authorization</a> , September 2010
Virginia	Debt Capacity Advisory Committee	Debt service as a percentage of revenues	<a href="#">Debt Capacity Advisory Committee: Report to the Governor and the General Assembly</a> , December 2010
Washington	State Treasurer	<ul style="list-style-type: none"> <li>• Debt per capita</li> <li>• Debt as a percentage of personal income</li> <li>• Debt service as a percentage of expenditures</li> <li>• Debt as a percentage of gross state product</li> </ul>	<a href="#">Debt Affordability Study</a> , December 2010

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