



TAX-SUPPORTED DEBT PER CAPITA

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DEBT AFFORDABILITY

This report identifies each state's net tax-supported debt per capita, one of several measures used to determine a state's capacity to repay outstanding debt or issue new debt (debt affordability analysis). Other measures use fiscal variables, such as personal income and tax revenue, to gauge a state's capacity to afford debt.

Many states determine their debt affordability based on their total annual debt service payments as a percentage of their total annual tax and fee revenue, a metric that captures a state's short-term debt affordability.

The [New England Policy Center](#) concluded that no single measure best gauges a state's debt affordability and suggests, at a minimum, using the (1) debt service-to-revenue ratio, which measures short-term affordability, and (2) debt service-to-personal income, which measures long-term affordability (Jennifer Weiner, [Assessing the Affordability of State Debt, Research Report 13-2](#), December 2013).

ISSUE

This report shows how Connecticut ranks among the states on net-tax supported debt (NTSD) per capita and summarizes recent state efforts to increase their capacity to afford debt.

SUMMARY

Connecticut's NTSD per capita in 2014 was \$5,491, which ranked Connecticut first among the states based on this debt affordability measure, according to Moody's Investors Service's *State Debt Medians 2015*). This measure rests on the assumption that a state's capacity to pay debt depends on the state's total population, suggesting that states with relatively high debt per capita have less capacity to repay debt than those with relatively low debt per capita.

NTSD captures general obligation bond debt and other types of debt supported by statewide taxes and fees. But it does not include revenue bonds, which states and municipalities issue to finance specific types of revenue generating projects, such as sports stadiums.

Moody's also ranked Connecticut among the top 10 states based on other debt affordability measures that use 2013 economic data: seventh on total NTSD



(\$19.7 million), second on NTSD as a percentage of personal income (9.1%), and second on NTSD as a percentage of 2013 state gross domestic product (7.92%).

Extensive internet searches and discussions with the National Conference of State Legislatures identified five states that have enacted or instituted measures since 2004 to ensure that the amount of bonds they issue does not exceed their capacity to repay them. These measures include:

1. imposing or reducing constitutional or statutory annual debt limits (Illinois, Washington, and Pennsylvania);
2. adopting policies and practices to reduce existing debt levels (New York);
3. restricting the amount of bond proceeds states can use to pay for the legal and underwriting costs of issuing bonds (Illinois);
4. requiring states to sell a specified portion of bonds through competitive bidding (Illinois and New York);
5. shortening the time for repaying bonds (Illinois);
6. restricting the ability of states to issue bonds to repay outstanding bonds (Illinois); and
7. requiring states to assess their bonding capacity (Massachusetts and New York).

Most of these measures apply to the executive branch agencies that issue bonds, although some measures give legislators a role in assessing the extent to which the state can afford to issue more debt. The legislators who serve on Illinois' 12-member legislative Commission on Government Forecasting and Accountability monitor the state's bond issuances based on executive branch summaries detailing bond principal and interest costs. The chairs and ranking members of Massachusetts' fiscal committees serve as nonvoting members of the 15-member Capital Debt Affordability Committee, which, by law, must annually estimate the total amount of new debt the state may prudently issue for the next fiscal year. The committee's other members include executive branch officials and public finance experts appointed by the governor and the state treasurer.

This report updates a 2012 OLR report that described proposed and adopted bond reforms in Illinois, Massachusetts, Pennsylvania, and Washington ([2012-R-0389](#)). The report adds information about practices New York implemented in 2010.

2014 STATE NET TAX-SUPPORTED DEBT PER CAPITA RANKINGS

As Figure 1 and Attachment 1 show, Connecticut had the highest state NTSD per capita in 2014 (\$5,491), followed by Massachusetts (\$4,887), Hawaii (\$4,867), New Jersey (\$4,138), and New York (\$3,092), according to Moody's Investors Service ([State Debt Medians 2015](#), June 24, 2015). Nebraska had the lowest (\$10), followed by Wyoming (\$50), North Dakota (\$193), Iowa (\$250), and Montana (\$254). Moody's ranking is based on debt incurred in calendar year 2014 and debt paid in FY 14.

Moody's attributes some of the disparities in state NTSD per capita to the fact that some states issue bonds for local capital projects, such as new schools and libraries.

Other factors contributing to the disparities include differences in the schedules for repaying bonds and other debt. For example, some states with high NTSD per capita repay bonds over 25 years instead of 30, a practice that increases the annual interest payments and, consequently, per capita NTSD.

(Repaying a bond sooner also reduces interest costs, which improves a state's long-term debt affordability.)

Attachment 1 identifies each state's population, total net NTSD, NTSD per capita, and national NTSD per capita ranking.

RECENT STATE DEBT AFFORDABILITY CHANGES

Recently adopted changes aimed at strengthening a state's capacity to afford debt range from annual caps on the amount of debt states may issue to requirements for annual debt affordability analyses. Table 1 identifies these and other steps five states have taken since 2004 to improve their capacity to afford debt.

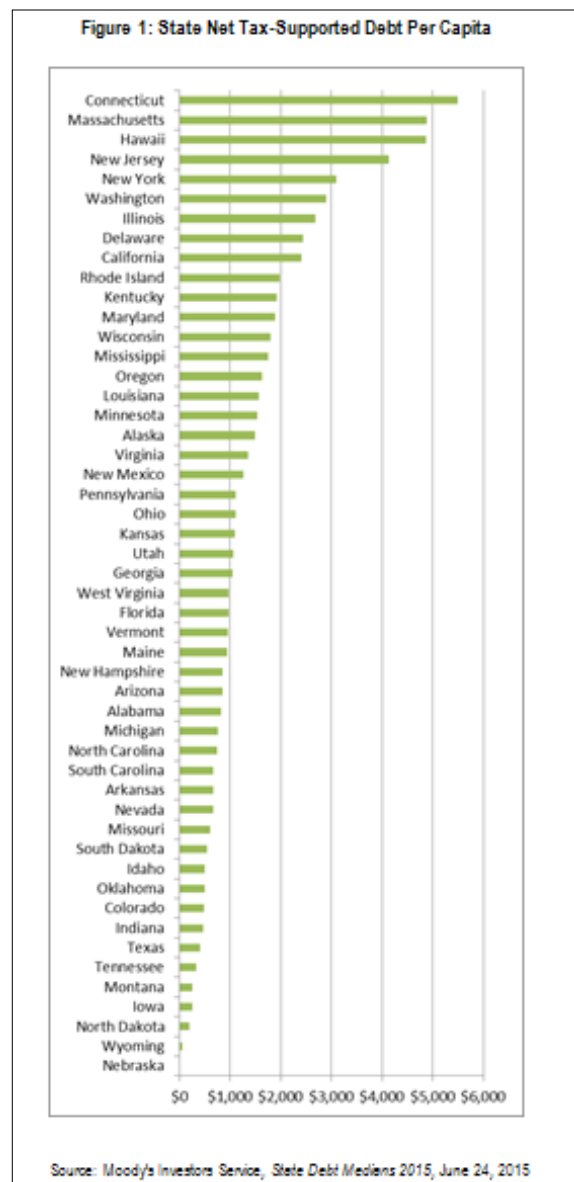


Table 1: Description of State Debt Control Measures Adopted in 2004-2015

Debt Mitigation Measure		Selected States that Adopted Measure				
Type	Description	IL ¹	MA ²	NY ³	PA ⁴	WA ⁵
Fiscal Caps	Limiting the amount of new debt a state may annually incur	X			X	X
Debt Reduction	Implementing plans to annually reduce the number of debt-financed capital projects			X		
Issuance Restrictions	<ul style="list-style-type: none"> Limiting or reducing the amount of bond proceeds a state may use to cover bond issuance costs and fees (e.g., bond underwriting) Banning payments to anyone who paid a contingency fee to a third party for promoting his or her hiring on a debt transaction 	X				
Bond Repayment Schedules	<ul style="list-style-type: none"> Requiring bond principal be repaid in equal installments over a bond's term Reducing the maximum number of years for repaying bonds 	X				
Bond Sale Method	<ul style="list-style-type: none"> Requiring bond-issuing agencies to sell a specified portion of bonds through competitive, as opposed to negotiated, bids 	X		X		
Capitalized Interest	<ul style="list-style-type: none"> Banning states from borrowing additional money to pay the interest costs on outstanding bonds 	X				
Disclosure Requirements	<ul style="list-style-type: none"> Requiring bond issuing agencies to provide data on bond repayment costs 	X				
Debt Monitoring	<ul style="list-style-type: none"> Establishing a body tasked with monitoring debt 	X				
Debt Affordability Analysis	<ul style="list-style-type: none"> Annually analyzing the state's capacity to afford new debt 		X	X		
Risk Reduction Practices	<ul style="list-style-type: none"> Allowing states to transfer and spend dollars from specified funds to refinance bonds and take other steps to reduce risks in their debt portfolios 			X		
Revenue Bonds	<ul style="list-style-type: none"> Authoring revenue bond financing (bonds backed by only a specific revenue source, such as the sales tax) to finance specified capital improvement projects 			X		

Sources:

1. Commission on Government Forecasting and Accountability, [Analysis of the FY 2013 Capital Infrastructure Plan for the State of Illinois](#) and "Reforming State Debt Management Practices: The Case of Illinois, 2004," by Martin J. Luby, *Municipal Finance Journal*, Vol. 30, No 1, Spring 2009
2. [Mass. Gen Law ch. 29, § 60B](#)
3. [State of New York 2010-11 Executive Budget Five-Year Capital Program and Financing Plan and New York FY 2016 Capital Program and Financing Plan](#), Division of Budget
4. [2013 Pa. Session Laws No. 77](#)
5. [Washington State Debt Amendment, Joint Senate Resolution 8221](#), approved November 6, 2012

Attachment 1: 2014 State Net Tax-Supported Debt Per Capita

State	Population as of July 1, 2014	State Net Tax-Supported Debt	State Net Tax Supported Debt Per Capita	Ranking
Alabama	4,849,377	\$3,994,554,000.00	\$824	32
Alaska	736,732	\$1,097,200,000.00	\$1,489	18
Arizona	6,731,484	\$5,696,536,000.00	\$846	31
Arkansas	2,966,369	\$1,985,697,000.00	\$669	36
California	38,802,500	\$93,406,000,000.00	\$2,407	9
Colorado	5,355,866	\$2,562,681,000.00	\$478	42
Connecticut	3,596,677	\$19,748,617,000.00	\$5,491	1
Delaware	935,614	\$2,280,579,000.00	\$2,438	8
Florida	19,893,297	\$19,365,100,000.00	\$973	27
Georgia	10,097,343	\$10,533,130,000.00	\$1,043	25
Hawaii	1,419,561	\$6,908,297,000.00	\$4,867	3
Idaho	1,634,464	\$807,023,000.00	\$494	40
Illinois	12,880,580	\$34,533,312,000.00	\$2,681	7
Indiana	6,596,855	\$3,127,400,000.00	\$474	43
Iowa	3,107,126	\$777,765,000.00	\$250	47
Kansas	2,904,021	\$3,190,772,000.00	\$1,099	23
Kentucky	4,413,457	\$8,478,928,000.00	\$1,921	11
Louisiana	4,649,676	\$7,281,761,000.00	\$1,566	16
Maine	1,330,089	\$21,253,100,000.00	\$942	29
Maryland	5,976,407	\$11,290,500,000.00	\$1,889	12
Massachusetts	6,745,408	\$32,966,753,000.00	\$4,887	2
Michigan	9,909,877	\$7,510,200,000.00	\$758	33
Minnesota	5,457,173	\$8,391,884,000.00	\$1,538	17
Mississippi	2,994,079	\$5,230,599,000.00	\$1,747	14
Missouri	6,063,589	\$3,674,045,000.00	\$606	38
Montana	1,023,579	\$259,835,000.00	\$254	46
Nebraska	1,881,503	\$18,175,000.00	\$10	50
Nevada	2,839,099	\$1,887,084,000.00	\$665	37
New Hampshire	1,326,813	\$1,125,535,000.00	\$848	30
New Jersey	8,938,175	\$36,990,047,000.00	\$4,138	4
New Mexico	2,085,572	\$2,622,700,000.00	\$1,258	20
New York	19,746,227	\$61,048,530,000.00	\$3,092	5
North Carolina	9,943,964	\$7,345,660,000.00	\$739	34
North Dakota	739,482	\$142,467,000.00	\$193	48

State	Population as of July 1, 2014	State Net Tax Supported Debt	State Net Tax Supported Debt Per Capita	Ranking
Ohio	11,594,163	\$12,856,609,000.00	\$1,109	22
Oklahoma	3,878,051	\$1,913,369,000.00	\$493	41
Oregon	3,970,239	\$6,495,201,000.00	\$1,636	15
Pennsylvania	12,787,209	\$14,279,200,000.00	\$1,117	21
Rhode Island	1,055,173	\$2,094,732,000.00	\$1,985	10
South Carolina	4,832,482	\$3,245,817,000.00	\$672	35
South Dakota	853,175	\$466,291.00	\$547	39
Tennessee	6,549,352	\$2,142,316,000.00	\$327	45
Texas	26,956,958	\$10,947,292,000.00	\$406	44
Utah	2,942,902	\$3,118,204,000.00	\$1,060	24
Vermont	626,562	\$597,520,000.00	\$954	28
Virginia	8,326,289	\$11,286,410,000.00	\$1,356	19
Washington	7,061,530	\$20,422,165,000.00	\$2,892	6
West Virginia	1,850,326	\$1,813,268,000.00	\$980	26
Wisconsin	5,757,564	\$10,331,182,000.00	\$1,794	13
Wyoming	584,153	\$29,020,000.00	\$50	49

Source: [Moody's Investors Service, State Debt Medians 2015, June 24, 2015](#)

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