

Measuring State Debt Levels

Daniel McMillen

Rick Mattoon

William Testa

Charting Illinois's Fiscal Future

June 17-18, 2010

Federal Reserve Bank of Chicago

Putting debt in perspective

- Is there a magic threshold?
- What is the appropriate measure?
- What goes into the numerator?
- What is used as the denominator?
- What is the debt used for—is some debt more productive than other debt?
- Any implications from having bad credit?

Any market indicators?

Credit default swaps

100 bps=\$10,000 to insure \$1 million in debt

Nation/State	CDS Spread (May 2010)	CDS Spread June 10, 2010
Greece	712.3	
Germany	49.8	
Ireland	216.5	
California	170.9	
Illinois	217.8	283.0
Michigan	166.7	
New York	147.3	
New Jersey	142.5	

What is the appropriate measure?

- National/International tend to rank debt as a share of GDP
- For states a more refined measure might look at the state's fiscal capacity—what resources does a state have to support debt—both existing taxable resources, potential taxable resources and total resources (Federal support)
- Measure should take into consideration demographics/economic trend in state. If slow growth, future debt level may need to be more constrained.

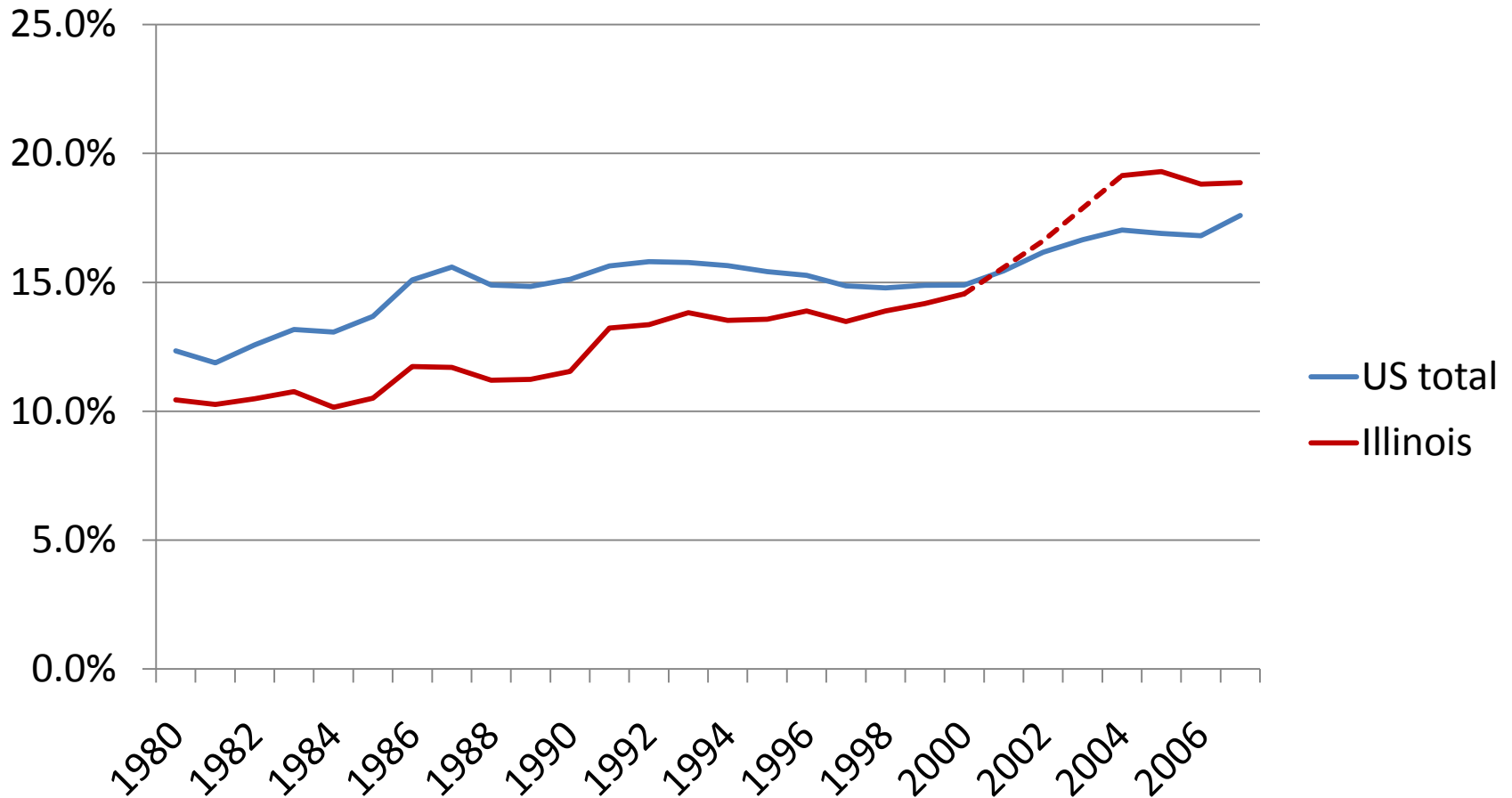
What goes in the numerator?

- What is debt?
- Starting point is long and short-term debt issued
- State or state and local?
- What about other “soft debt”—namely pensions and OPEB—should it be included?

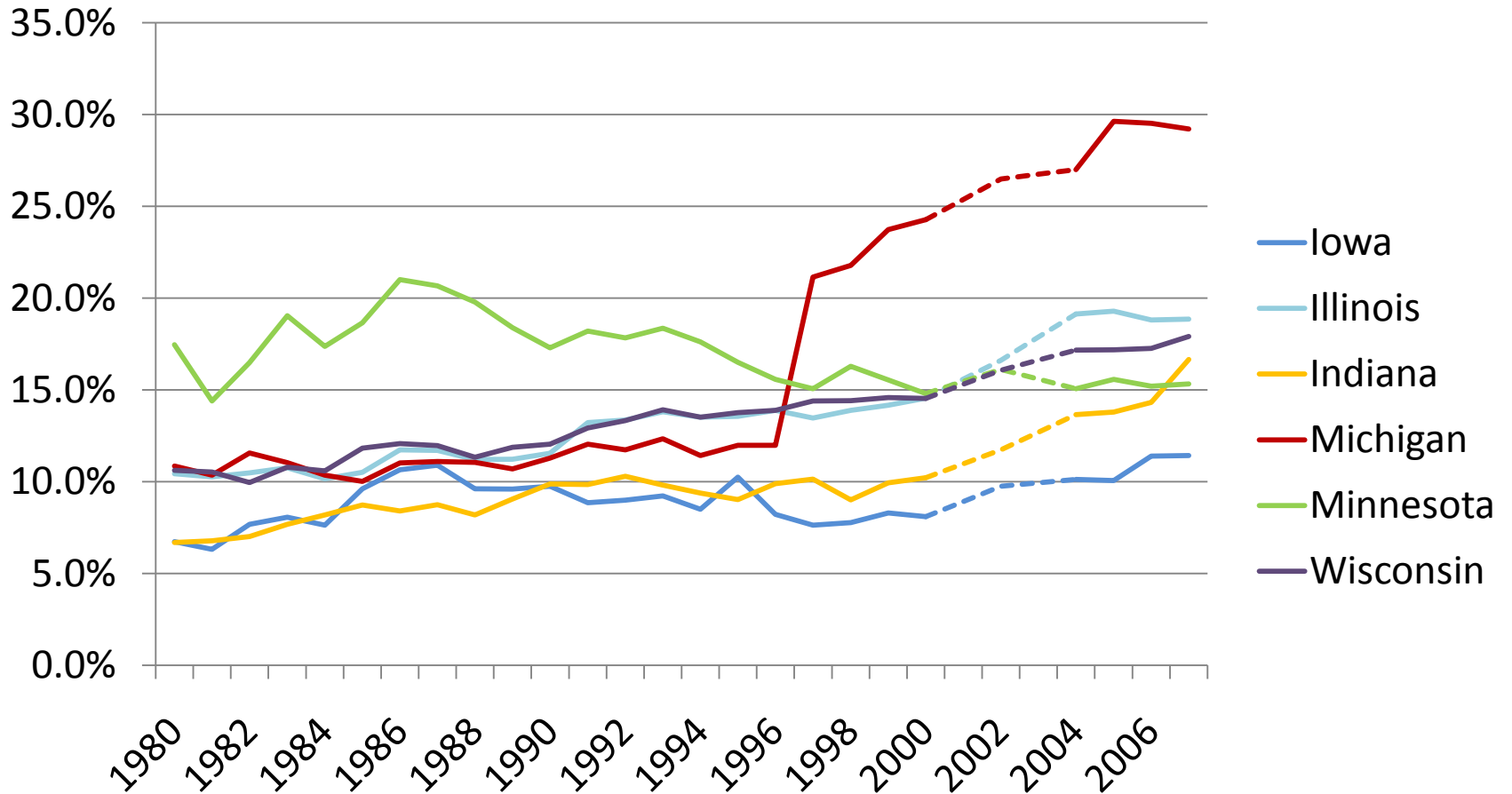
How about the denominator?

- GSP
- Own-source tax revenue (state and local)
- Total revenue (state, local, federal)
- Personal income

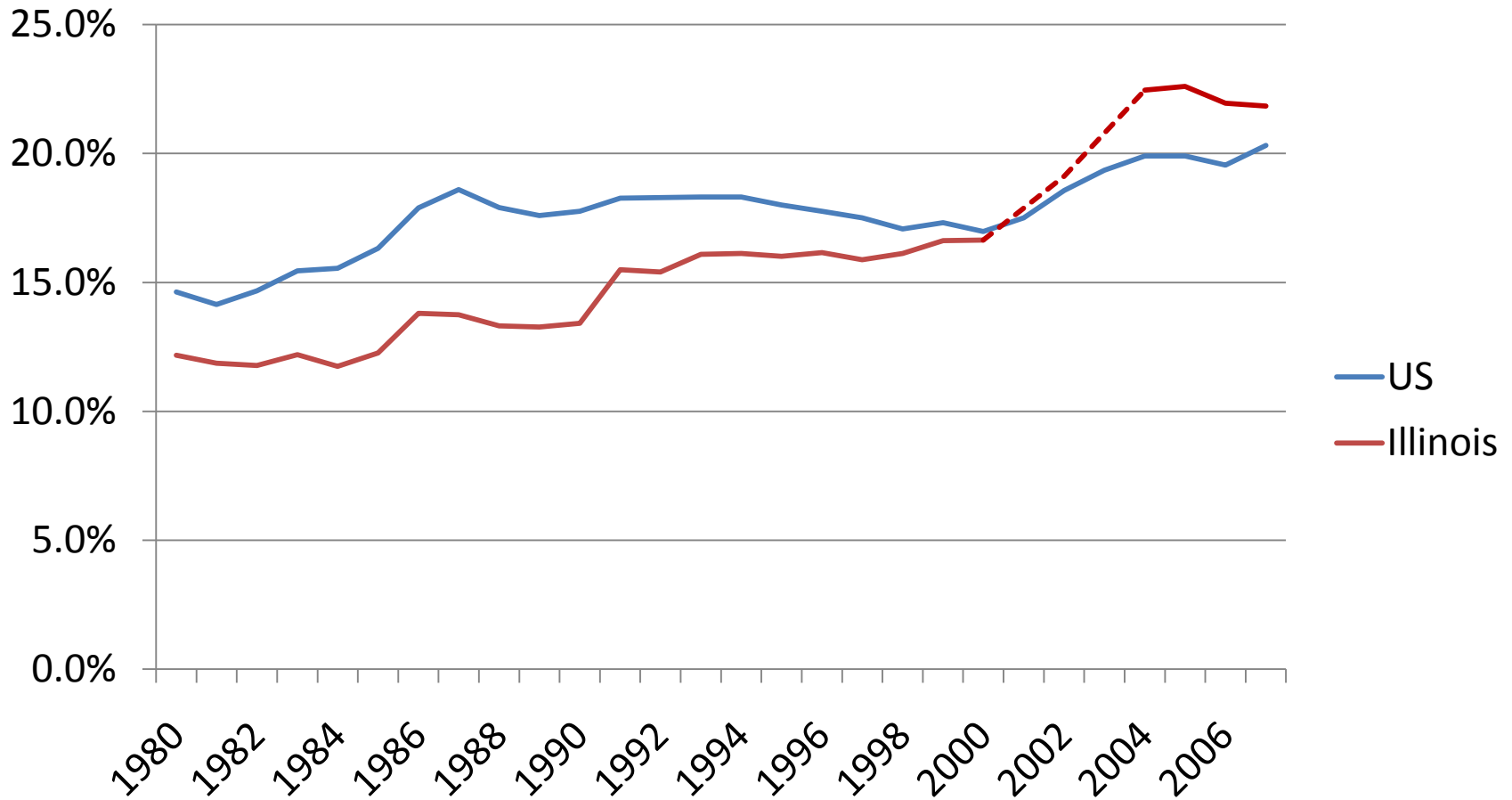
The traditional measure—state and local long- and short-term debt as share of GSP—Illinois vs US



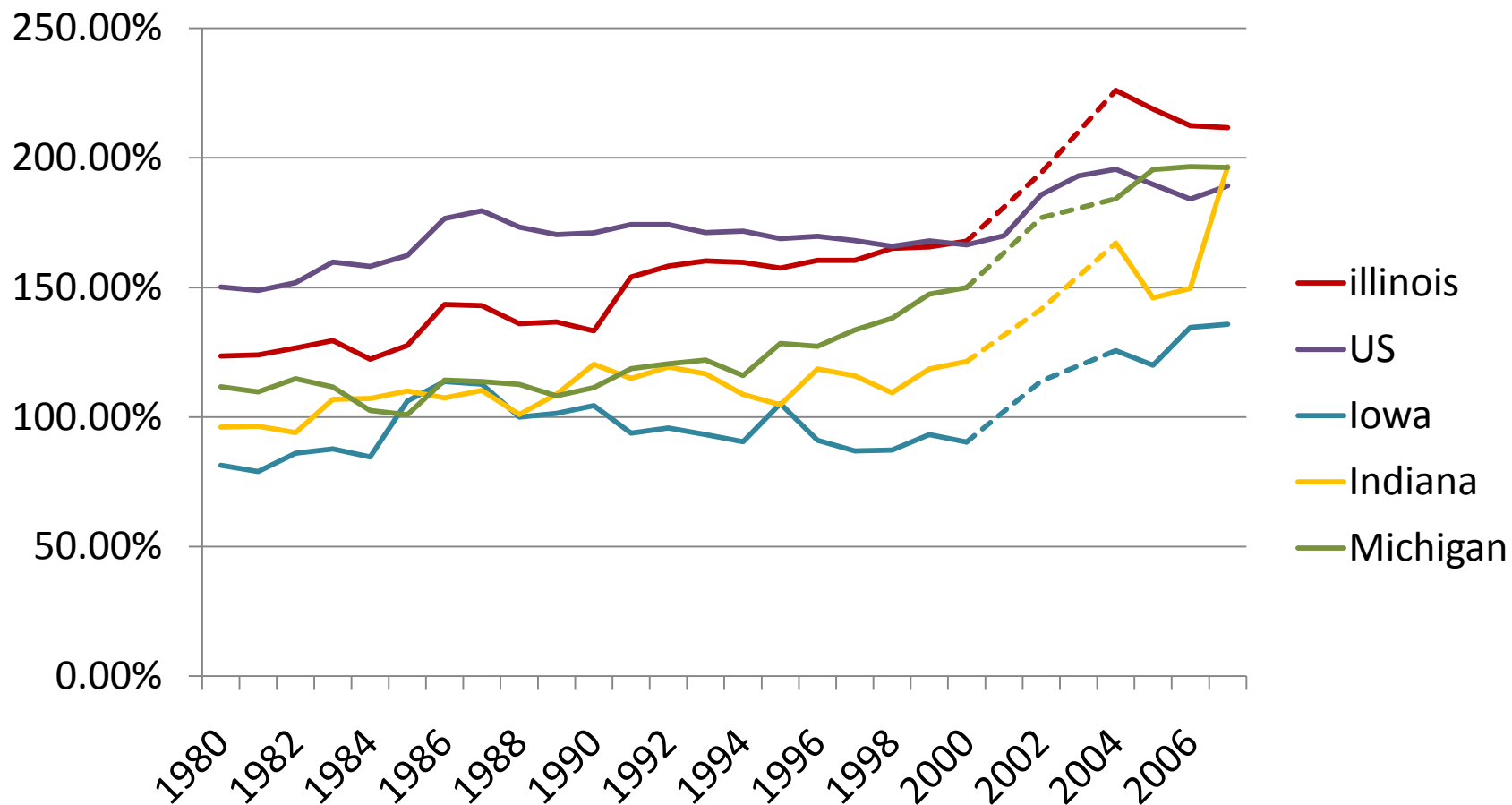
Same measure—performance vs other Midwest States



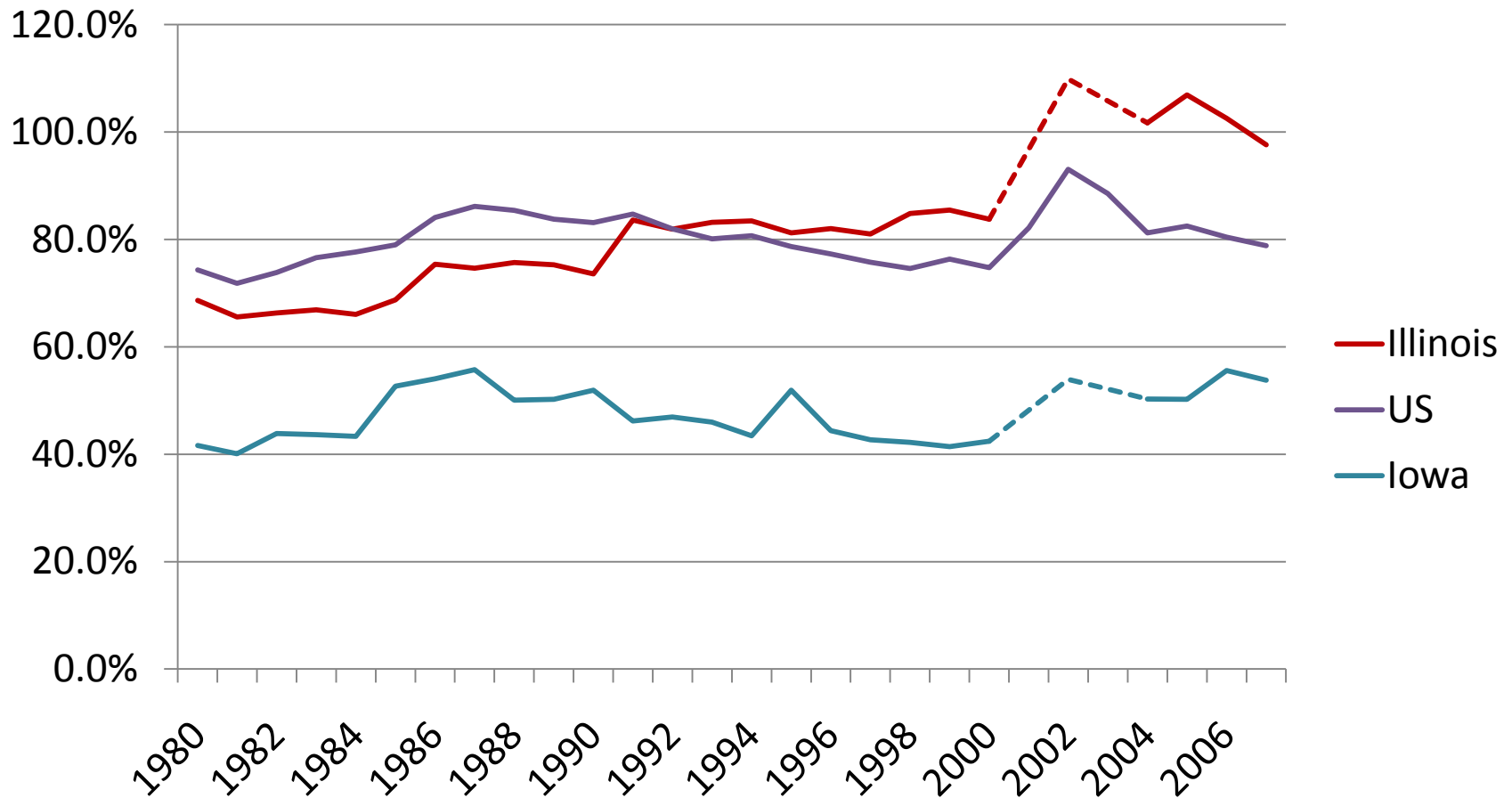
New Measure—state and local debt as share of personal income



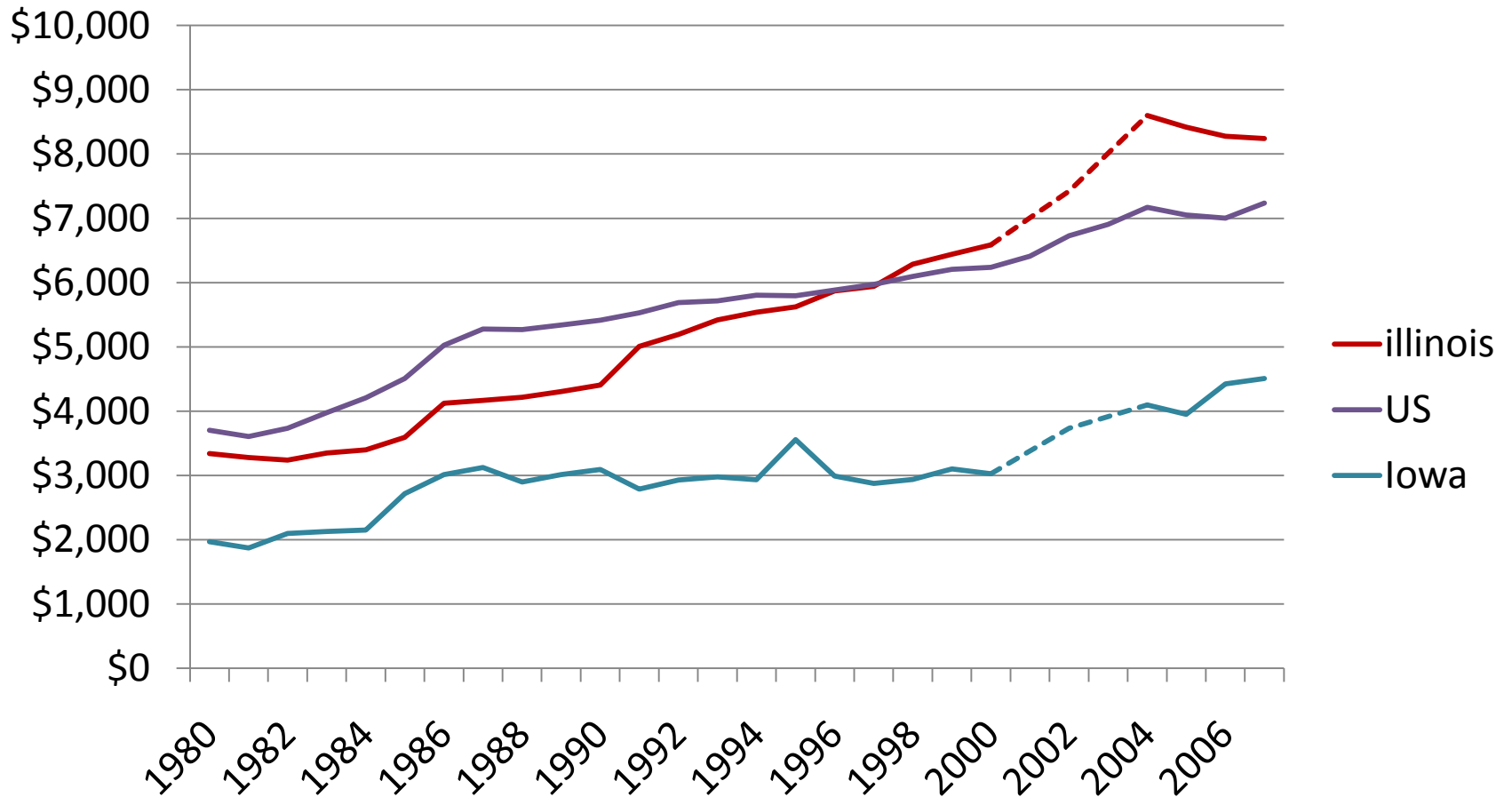
New measure-- state and local debt as a share of total state and local taxes



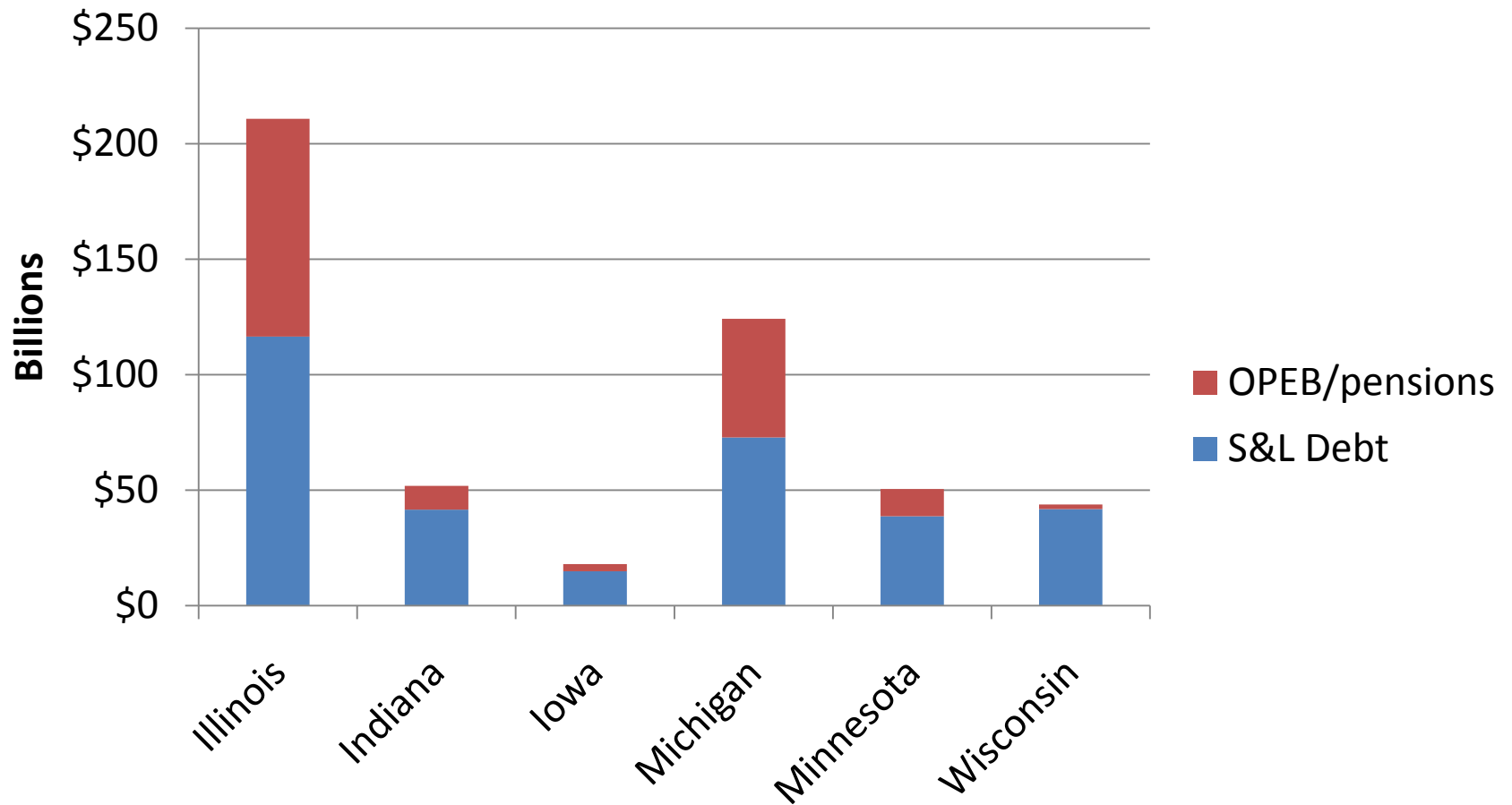
New measure—state and local debt as a share of total state and local revenues



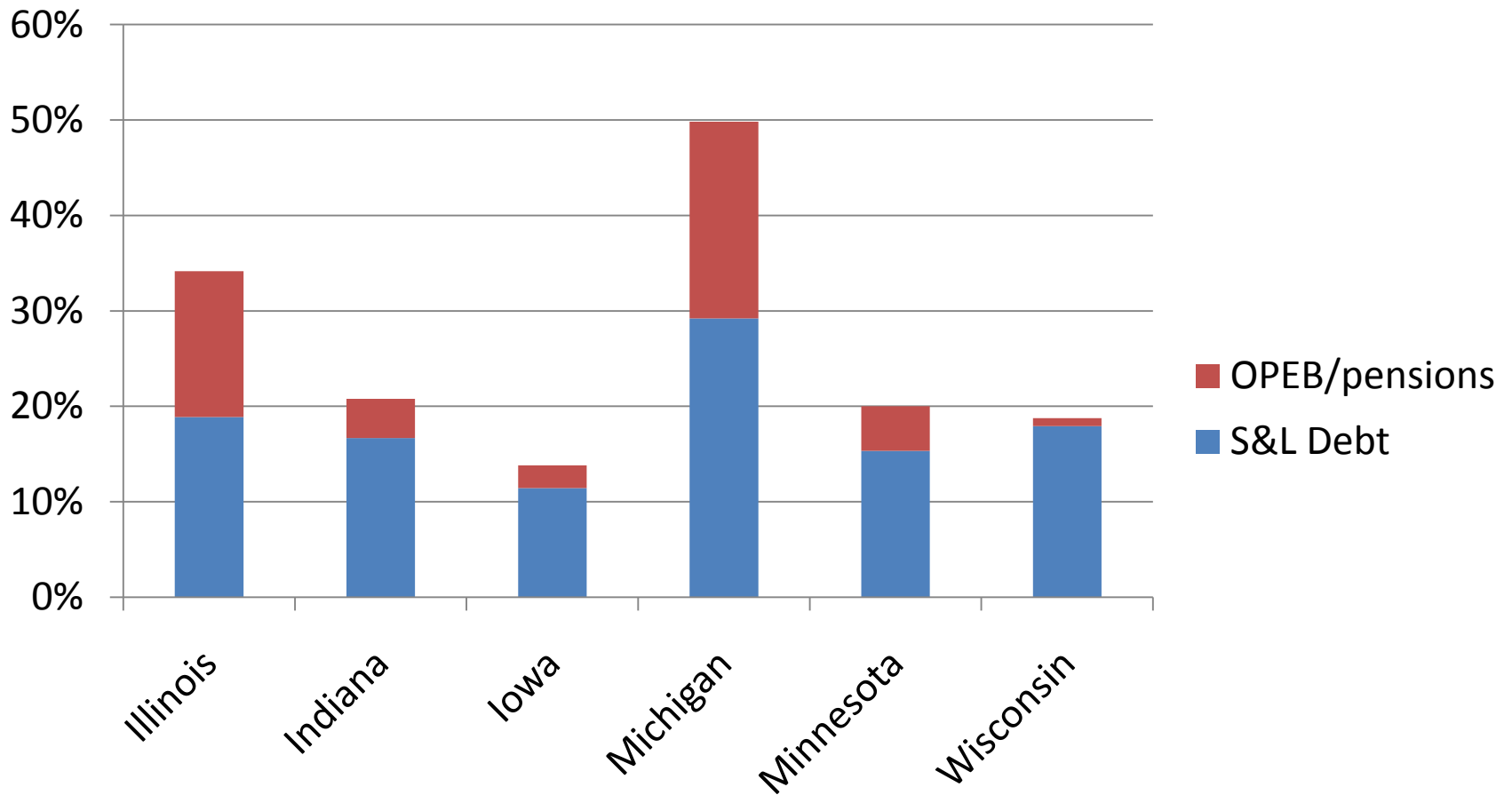
Real per capita debt levels



Pension and OPEB liabilities (2007)



Pension and OPEB liabilities as a Percent of GSP (2007)



Questions to ponder?

- What happened in 2000? Is this a trend break?
- Is there a threshold?