Measuring State Debt Levels

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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

<table>
<thead>
<tr>
<th>Nation/State</th>
<th>CDS Spread (May 2010)</th>
<th>CDS Spread June 10, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>712.3</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>49.8</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>216.5</td>
<td></td>
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<tr>
<td>California</td>
<td>170.9</td>
<td></td>
</tr>
<tr>
<td>Illinois</td>
<td>217.8</td>
<td>283.0</td>
</tr>
<tr>
<td>Michigan</td>
<td>166.7</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>147.3</td>
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<tr>
<td>New Jersey</td>
<td>142.5</td>
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</tbody>
</table>
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

- Illinois
- US
- Iowa
Real per capita debt levels

- Illinois
- US
- Iowa
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?