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S&P 2014 U.S. State Debt Review: New Issuance Remains A Lower Priority.

While infrastructure needs in the U.S. — and worldwide -– are very high, in our view, debt issuance in the majority of U.S. states remains below average. And although we consider lower debt levels to be a credit strength, we also recognize that deteriorating infrastructure may limit a government's economic competitiveness. This view of the connection between infrastructure and economic strength was reflected in a recent report by U.S. Treasury Department, which stated that high-quality and reliable infrastructure is essential to the U.S. economy and that failure to provide and maintain adequate infrastructure would have severe economic consequences, with fewer jobs created, hundreds of billions of dollars of time and fuel lost to traffic jams, and elevated costs of goods due to increased freight costs. (See "Expanding Our Nation's Infrastructure Through Innovative Financing," U.S. Department of the Treasury Office of Economic Policy, September 2014.)

Standard & Poor's Ratings Services believes that the significant demands on governments to reinstate services, reduce taxes, and fund rising pension and health care costs make significant debt issuance an unpopular budget choice. For example, while approximately 10 states proposed tax cuts in their fiscal 2015 budgets, far fewer had significant infrastructure financing expansions. In our fiscal 2015 state budget survey "U.S. State Fiscal Recoveries Vary As Crucial Budget Choices Loom," published April 23, 2014, on RatingsDirect, we discussed our view of repressed fiscal deficits in which states balance their budgets by neglecting their infrastructure needs, deferring maintenance on existing capital assets, or underfunding their pension contributions. In our view, although current underinvestment in these areas might produce near-term savings, it could increase costs over the longer run and lead to structural deficits.

We also believe that formalized state policies limiting debt are another factor in restraining debt issuance. According to a 2014 survey from the National Association of State Budget Officers, 38 states have limits on the amount of general obligation bonds, either by constitution, statute, or policy. The debt guidelines that states use cover many areas. The two measures they use most frequently, according to a research report from the New England Public Policy Center of the Federal Reserve Bank of Boston, are debt principal to personal income levels and annual debt service to a state's revenues, which are similar to the ratios in Standard & Poor's U.S. states rating criteria. Other state debt guidelines include debt per capita, debt to taxable property value, and debt to revenues.

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13-Oct-2014