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An Analysis of Proactive State Monitoring of Local Government Debt Issuance.

Abstract

Debt monitoring rules are a type of fiscal rule that allows states to proactively oversee their local government borrowing. This study examines how these rules impact local borrowing costs using a mixed-methods approach. It reviews state codes to classify debt monitoring features and creates a rigor index to measure state involvement. The study then assesses how variation in state involvement influences borrowing costs. The results indicate that debt monitoring rules involving early and substantive state involvement, particularly those that facilitate timely information exchange and state engagement, are associated with lower borrowing costs, while passive monitoring has little effect.

Key Points

Debt monitoring rules are designed to structure how debt information is reported, reviewed and coordinated between local and state governments, with important variation in state involvement.

Some states have an approval process in which the state is highly involved in local government borrowing while other states are passively involved, primarily limited to data collection and dissemination.

To capture this variation, this study conducts a national review of state statutory codes, anddevelops a rigor index that measures the extent of state involvement in the local government debt issuance process.

Empirical results show that higher levels of state involvement, particularly prior to bond issuance, are associated with significantly lower borrowing costs, compared to limited or no state involvement.

Low levels of state involvement, including post-issuance monitoring and information collection, do not significantly affect borrowing costs, underscoring the importance of timely and actionable oversight.

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