State and Local Government Debt
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Introduction
State and local governments issue debt to fund capital projects. Nebraska state debt is extremely low relative to other states, while our local government debt is relatively high. This policy brief analyzes the reasons for these disparities, and provides regional comparisons.

Debt Overview
When governments invest in capital projects that have long-term useful lives (e.g., buildings, roads, utility infrastructure), they can pay with current resources (pay-as-you-go) and/or they can issue debt (pay-as-you-use). Scholars support the use of debt for these purposes for three reasons. First, repayment of debt over time increases intergenerational equity; those who benefit from the project in the future will help to pay for it through taxes or fees. Second, paying for projects using only currently-available funds discourages capital investment and can therefore be economically inefficient. Third, capital projects are “lumpy” in that they are typically large relative to the annual operating budget and the amount of capital spending can vary substantially from year to year. Paying for them with current cash could lead to volatility in tax rates over time, and revenue streams for some projects may not occur until after project completion. Therefore, timing of capital projects may warrant the use of debt.

Government debt can be either guaranteed or nonguaranteed. General Obligation Bonds (G.O. bonds), used for projects that have general benefit for the community, are guaranteed by the “full faith and credit” of the government’s taxing authority. Because of this, G.O. bonds typically are less risky and therefore have lower interest costs for the issuer. Non-guaranteed debt includes Revenue Bonds and Lease-Purchase Bonds. Revenue bonds are repaid from fees or other forms of revenue specifically related to the project. Lease-purchase bonds are typically paid from general revenues and require an annual budget appropriation. Because of the uncertainty of the future revenue streams, nonguaranteed forms of debt typically have higher interest costs for the issuer.

While debt can serve an important purpose, debt levels that are too high can affect the long-term fiscal health of a community or state, and can “crowd out” spending on other important activities. There are a variety of constraints on the issuance of debt. Most states have restrictions on both state and local governments, especially related to General Obligation debt. Many of these restrictions date from the 1800s when extensive levels of railroad debt led to fiscal crises and bankruptcies. For example, the State Constitution in Nebraska limits total outstanding state debt to $100,000, except for specific purposes related to highways and education (Article XIII, Section 1). Local governments in the state must seek voter approval for General Obligation bonds, and limits are imposed based on property valuation.

Regional Comparisons
Tables 1 and 2 use U.S. Census Bureau data to show how per capita debt compares between states, and between local governments, in the 2011-2012 fiscal year. The comparisons use the U.S. national
average, as well as the nine states in the region (the states in the U.S. Census Bureau West North Central region, as well as Nebraska’s adjacent states of Colorado and Wyoming).

Table 1: State Debt Per Capita, 2011-2012 ($)

<table>
<thead>
<tr>
<th>State</th>
<th>State Debt Outstanding</th>
<th>National Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$ 3,713.33</td>
<td></td>
</tr>
<tr>
<td>South Dakota</td>
<td>$ 4,421.80</td>
<td>13</td>
</tr>
<tr>
<td>Missouri</td>
<td>$ 3,407.58</td>
<td>26</td>
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<tr>
<td>Colorado</td>
<td>$ 3,238.15</td>
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<td>North Dakota</td>
<td>$ 3,081.11</td>
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<tr>
<td>Minnesota</td>
<td>$ 2,490.12</td>
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<tr>
<td>Kansas</td>
<td>$ 2,406.05</td>
<td>38</td>
</tr>
<tr>
<td>Wyoming</td>
<td>$ 2,348.61</td>
<td>39</td>
</tr>
<tr>
<td>Iowa</td>
<td>$ 2,023.23</td>
<td>41</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$ 1,134.67</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: U. S. Census Bureau, State Government Finance and Total Population (ACS 2012 5-year Estimate)

As seen in Table 1, Nebraska’s state debt per capita is $1,134.67. The state ranks 49th nationally. Nebraska’s debt level is 69% below the national average of $3,713.33, and 44% below the state of Iowa which has the second-lowest debt per capita in the region. As noted earlier, the constitutional provision in Nebraska is a significant restriction on state debt issuance.

Table 2: Local Debt Per Capita, 2011-2012 ($)

<table>
<thead>
<tr>
<th>State</th>
<th>Local Debt Outstanding</th>
<th>National Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
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<td></td>
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<tr>
<td>Colorado</td>
<td>$ 7,219.19</td>
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<tr>
<td>Kansas</td>
<td>$ 7,146.58</td>
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<td>Minnesota</td>
<td>$ 6,415.85</td>
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<tr>
<td>Nebraska</td>
<td>$ 5,844.39</td>
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<td>Missouri</td>
<td>$ 4,268.58</td>
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<tr>
<td>North Dakota</td>
<td>$ 3,547.48</td>
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<tr>
<td>Iowa</td>
<td>$ 3,546.58</td>
<td>33</td>
</tr>
<tr>
<td>South Dakota</td>
<td>$ 2,711.46</td>
<td>40</td>
</tr>
<tr>
<td>Wyoming</td>
<td>$ 1,812.68</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: U. S. Census Bureau, State & Local Government Finance and Total Population (ACS 2011 5-year Estimate)

On the other hand, local government debt per capita in Nebraska of $5,844.39 is ranked 12th in the nation (see Table 2). This level is 1% higher than the national average of $5,789. Three states in the region (Colorado, Kansas, and Minnesota) have higher levels of debt than Nebraska, but four are lower. Wyoming’s debt is only $1,812, 69% lower than Nebraska’s local debt per capita.
Local Debt by Type of Government

Comparing debt across types of local government can help to better understand why Nebraska’s local debt level ranks so high nationally. U.S. Census Bureau data by type of local government is available every five years. The most recent data at this level are for the years 2007 and 2002.

Figure 1: Nebraska Local Debt Per Capita by Type of Government, 2002 and 2007 ($)


Figure 1 compares debt levels between the two years of 2002 and 2007, and also compares between type of government. Special districts are by far the largest users of debt in the state. These districts account for 52.19% of the total local debt in 2007. Municipalities have the second highest debt levels, at 27.02% of the total in 2007, followed by school districts at 17.36% of the total, and counties at 3.42%. All of these local government types increased per capita debt between 2002-2007, with the largest increases in special districts (58.5%) and municipalities (83.5%).

Detailed data are not available for debt outstanding by type of special district. However, special district expenditures in Nebraska are primarily driven by utilities, and especially electric power utilities. In 2007, all utilities comprised 80% of special district expenditures; electric utilities comprised 65% of special district spending. Since electric utilities are largely responsible for special district expenditures, it is logical to conclude that they are also responsible for the majority of special district debt.

Nebraska is the only state with 100% public power. Therefore, electric utility debt in the state is all local government debt, whereas in other states, some of this debt is issued by private utilities rather than government entities. This can be seen more clearly in Figure 2, which compares local debt per capita by type of government across the states in the region. Nebraska has significantly higher special district debt
than other states. Excluding special districts, Nebraska is comparable to the other states. It is difficult to make direct comparisons across states, though, as some functions may be included in cities/counties in some places and as special districts in others.

**Figure 2: Local Debt Per Capita by Type of Government, Regional Comparison, 2007 ($)**

![Local Debt Per Capita by Type of Government, Regional Comparison, 2007 ($)](image)

Source: U. S. Census Bureau, State & Local Government Finance and Total Population (ACS: 2007, 3-year estimate)

**Growth in Debt**

How much debt is too much? This is a difficult question to answer, because it depends on a variety of factors such as sources of debt repayment, other long-term commitments (e.g., pension and other post-employment benefits liabilities), overlapping debt within a community, projected growth of the local economy, and the purpose of projects (e.g., some projects are specifically intended to increase the local tax base). Growth of outstanding debt over time, though, can be useful in detecting patterns and potential concerns.

Figure 3 graphs both Nebraska state debt and local debt outstanding per capita between 2004-2011. State debt has grown slightly over time, but has declined since 2008. Local debt has grown over this period by 48.4%, from $3,937.25 to $5,844.39, although there was a decline in 2011. In real terms, after adjusting for inflation, local debt has grown by 24.7% while state debt has decreased by 2.63% over the same period.
Figure 3: Nebraska State and Local Government Debt Outstanding Per Capita, 2004-2011 ($)

Source: U. S. Census Bureau, State & Local Government Finance and Total Population; Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average (1982-84=100)

Figure 4: Local Debt as a Percentage of Total Expenditure by Type of Government, 2002 and 2007 ($)

Another way to consider debt capacity is to compare outstanding debt to the level of overall expenditures. Figure 4 shows this data for local debt by type of government. Special districts have the highest level of debt as a percent of total expenditures in 2002 (132.7%). However, special district debt declined by 6.6 percentage points by 2007. Debt issued by municipalities has increased substantially as a percent of total expenditures in this period, from 73.2% to 110.9%. School districts and counties have lower levels of debt relative to total spending, and have had relatively little change over this period in this ratio.

**City of Omaha**

The City of Omaha provides an example of an individual local government that has experienced large increases in outstanding debt since 2000 (see Figure 5). The City’s outstanding debt as of December 31, 2013 was $1.25 billion. Approximately one-half of the debt is in the form of General Obligation bonds, supported primarily by a property tax levy. The remainder of the debt is lease-purchase bonds and revenue bonds, with a variety of different repayment sources.

Omaha has taken on debt for several major projects related to economic development, including riverfront development and a convention center/arena ($300 million), a downtown stadium ($100 million), and a convention hotel ($146 million). These projects account for 43.6% of the city’s total outstanding debt. In addition, the city is in the process of a 15-year federally-mandated Combined Sewer Overflow Control Plan, which is expected to increase the sewer revenue debt to about $2 billion. Bond rating agencies have noted that the city’s debt levels are relatively high, but manageable.

**Figure 5: City of Omaha Outstanding Debt, December 31, 2014 (in $millions, %)**

Source: City of Omaha 2013 Comprehensive Annual Financial Report
Observations

The state’s debt levels are very low, presumably due to the constitutional restrictions. Local debt levels are relatively high, which appears to be primarily because the state has 100% public power. As seen in the City of Omaha, there is increasing use of local debt for economic development purposes, such as stadiums and arenas. The long-term costs and benefits of these projects will not be known for decades.

This analysis does not point to a serious problem with debt at this time. However, the level of local debt has increased in recent years. One concern may be overlapping debt. For example, in the Omaha area, the City of Omaha will increase debt substantially over the next decade for the sewer project. The Metropolitan Utilities District is expecting to do a significant amount of work on infrastructure at this same time, and voters just authorized a large bond issuance for the Omaha Public School District. These simultaneous projects will increase tax and fee burdens on the local residents and taxpayers.

Scholars consider long-term capital planning to be useful for anticipating and prioritizing needs, and to help stabilize debt and property taxes. Some local governments in Nebraska have Capital Improvement Plans, ranging from 3-10 years, but others do not. This type of planning can be especially important for monitoring and financing maintenance needs, since deferred maintenance can end up costing more money over the long run. Local governments could be encouraged to develop long-term capital plans.

Finally, debt issuance incurs costs. Some methods and forms of debt are more costly than others. Nationally, interest rates have been consistently found to be lower with competitive versus negotiated sales, yet governments are increasingly using negotiated methods. And while General Obligation debt typically has lower interest rates, use of other types of debt has increased. Additional study of these issues in Nebraska local governments could be helpful in understanding the efficiency of debt issuance in these jurisdictions, and whether training or policy changes may be beneficial.

References

City of Omaha, Nebraska, 2013 Comprehensive Annual Financial Report.


U.S. Bureau of the Census, Government Finances, various years.

U.S. Bureau of the Census, American Community Survey, various years.