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New Interactive Tool Helps States Evaluate Debt

Research by Pew shows multiple factors influence borrowing

A new interactive tool from The Pew Charitable Trusts can help state leaders better assess their debt and see how their practices and positions compare with those in other states.

Pew's research on debt management examines how states determine how much they can or should borrow. No universal guidelines exist for how much debt state governments can afford. So, when policymakers try to assess how much to borrow for state priorities—to build roads, repair bridges, or remodel schools, for example—they often compare their own debt levels to those of other states. Many policymakers look to geographic neighbors or states with the same credit rating to make these comparisons, but research suggests there might be a better way.

States should consider several factors when comparing debt levels. Those with growing populations, for example, may wish to borrow more to strengthen their infrastructure in the face of rising use and need. Meanwhile, debt limits or other policies that constrain borrowing can affect state liabilities.

Pew's interactive tool sheds light on factors to consider when comparing debt levels, such as borrowing practices, constraints, and needs. The tool includes key measures that can influence borrowing levels, such as debt-limit policies, the degree to which borrowing is done by the state itself as opposed to independent agencies or authorities within the state, and the division of borrowing between the state and local governments. The site also displays traits that states commonly consider when choosing peers, such as credit ratings and geographic proximity.

Users can compare data for any two states or contrast any state to the U.S. median. They also can sort and group the 50 states using multiple criteria. The comparison points in the interactive tool are:

- **Centralization.** The degree to which borrowing is done by the state itself rather than by component units (such as a university system or housing authority). More centralization usually means higher state debt levels.
- **Local-state borrowing division.** The share of combined state and local debt issued by local governments. States with less local government borrowing tend to have higher state debt levels.
- **Revenue volatility.** A measure of variation in tax collections over time. Low scores mean that revenue levels are similar from year to year, while high scores indicate that revenue varies more. States with higher revenue volatility should plan for greater uncertainty when issuing debt and thinking about how it will be repaid.
- **Population growth.** The 10-year population growth rate from 2008 to 2017. Growing populations are associated with greater infrastructure investment, which is often paid for through debt.

The tool allows users to see the factors that influence state debt levels and make better-informed, state-by-state comparisons.

For more information about this interactive tool and Pew's research on state debt, visit pewtrusts.org/statedebttool.

For further information, please visit:

pewtrusts.org/fiscal-health

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