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CAPITAL BUDGETING IN THE STATES

NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

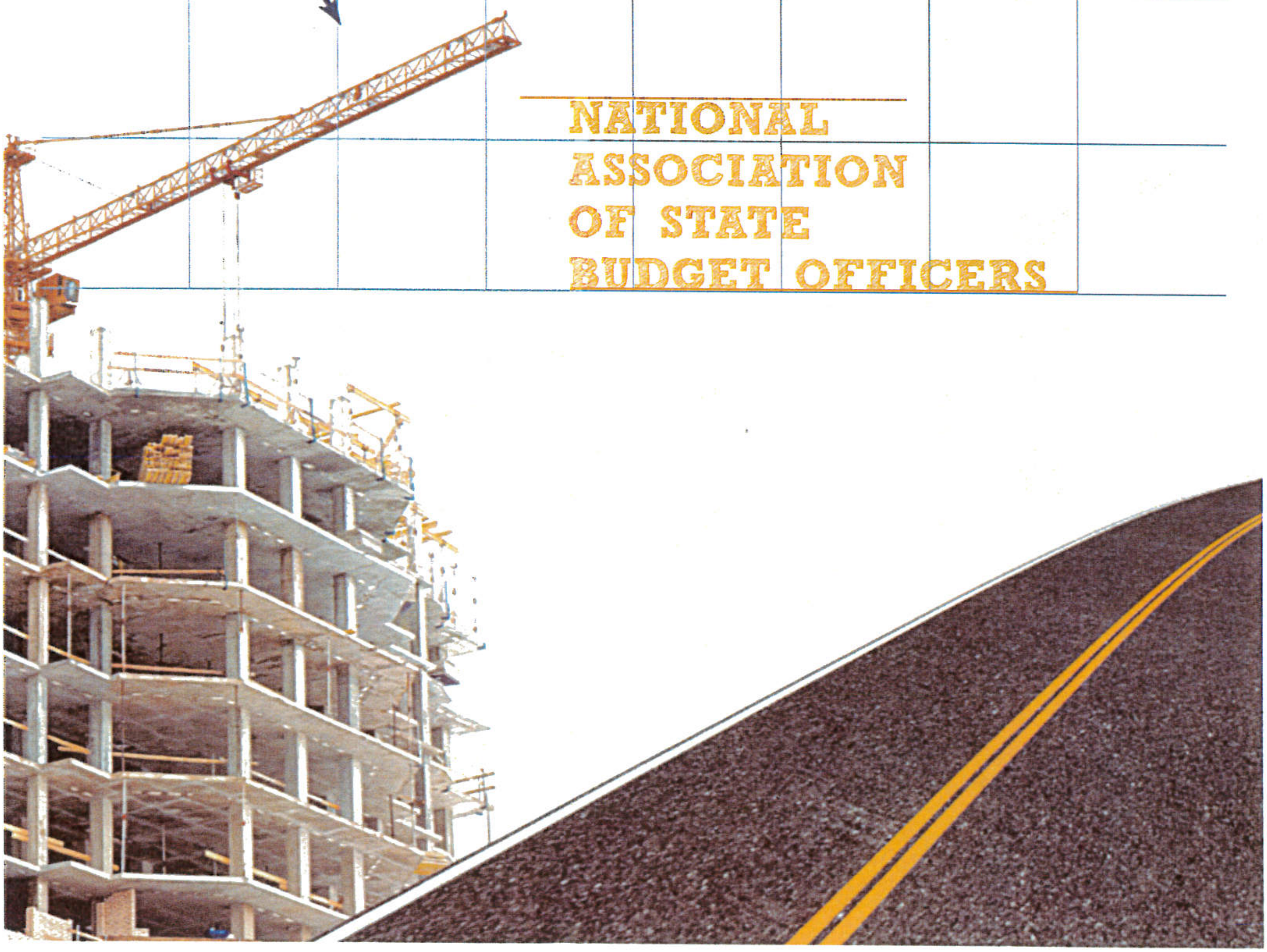


TABLE OF CONTENTS

TABLE OF CONTENTS *continued*

TABLE OF CONTENTS *continued*

CAPITAL BUDGETING IN THE STATES

Overview

This report delivers state-by-state comparative information on a range of capital budgeting concepts, practices, processes, and policies. In general, the topics presented in this report are dissimilar from those used to analyze operating budgets because capital expenditure items possess different qualities. Building a bridge that connects two highways is vastly different from providing health care services. Capital infrastructure projects, such as a bridge, involve significant resource commitments, often over long time periods. Infrastructure projects also require extensive planning, substantial upfront financing, technical knowledge and political cooperation across jurisdictions and levels of government. The additional considerations inherent to capital goods require different policies and guidelines from operating expenses to limit budgetary risks and ensure spending plans reflect priorities.

Substantial variation in state-level capital budgeting practices exists in part because there are differences in definitions of basic terms, concepts, measures and policies. For instance, there is no uniform definition of capital expenditures across states or a single guideline regarding the optimum financing strategy for capital projects. Most states consider land and construction as part of the capital budget, but variation exists regarding other items such as information technology or long-term property leases. Despite such disparities, a considerable degree of consistency does exist regarding key aspects of the capital budgeting process, such as capital improvement planning, characteristics of capital expenditures, the coordination of capital and operating budgets, and the prioritization of capital projects in the selection process.

This report will highlight both these similarities as well as differences and identify good practices that have been recognized by budget officers as effective and efficient tools that can improve the allocation of resources for capital and operating purposes. The text and tables of the report have been grouped into five chapters:

1. Definitions of Capital and Maintenance Expenditures;
2. Organization of the Capital Budget and Planning Process;
3. Capital Budget Development and Execution;
4. Debt Management and Capital Financing and;
5. Capital Asset Management.

Each chapter contains a range of terms, concepts, practices and policies that are essential in the capital budgeting and financing process.

Chapter 1, Definitions of Capital and Maintenance Expenditures, covers basic definitions, thresholds, and other criteria that determine what types of expenditures may or may not be included in the capital budget. This chapter also examines the treatment of maintenance funding as well as mechanisms for funding maintenance. Chapter 2, Organization of the Capital Budget and Planning Process, provides information on state capital improvement plans, development of the capital budget, the capital budget document, and explanations on the coordination of capital and operating budgets. Chapter 3, Capital Budget Development and Execution, covers the project selection process, cost-estimation, and contingency funding and cost-overruns. Chapter 4, Debt Management and Capital Financing, looks at state debt issuance, debt limit and debt service policies, capital financing methods, and capital financing instruments used by states. Chapter 5, Capital Asset Management, includes information on capital asset valuation methods, database management and capital inventories.

Background and Introduction

The health of the nation's public infrastructure has far-reaching implications for economic growth, public safety, the environment, innovation and citizens' overall quality of life. Businesses and households alike receive direct and tangential benefits from public investments in infrastructure. For example, transportation networks directly impact the movement of goods and services in the modern economy. School buildings are the foundation for child development, and university facilities enhance educational opportunities for the next generation's workforce. The benefits of public infrastructure also pervade the most basic aspects of life through facilities that purify our water or dispose waste. Despite the omnipresence of public infrastructure, decisions to increase investments often do not come easy, in part because infrastructure requires significant resource commitments, carries greater risk than other forms of government spending, and entails complex organizational and financial planning. As states continue to face budgetary constraints, funding capital investments will remain essential to meet infrastructure needs.

State and local governments play a central role in building and maintaining the nation's public infrastructure with a combined responsibility for 85.0 percent or the vast majority of public infrastructure investment.[1] Local governments and special districts in particular preside over water and wastewater systems, solid waste facilities, schools, fire and police facilities, and more. The federal government provides essential resources to state and local governments, notably through capital grant programs dedicated to transportation. In decades past, the federal government has made more significant public infrastructure investments, for example, during President Franklin Roosevelt's New Deal program or the post-World War II baby boom era. More recently the federal government temporarily increased grants to states for infrastructure with the passage of the *American Recovery and Reinvestment Act of 2009 (ARRA)*. ARRA also included bond provisions, such as the Build America Bonds and Recovery Zone Economic Development Bonds that provided additional federal subsidies, effectively decreasing borrowing costs for state and local governments. Despite ARRA's temporary boost to spending for capital purposes, infrastructure spending as a share of gross domestic product has declined from 3.5 percent in the 1960's to less than 2.5 percent by 2010.[2]

And while few public officials may be against additional capital infrastructure spending, immediate budgetary pressures can and often do take precedence over investments in projects that carry long-term benefits.

The current condition of public infrastructure[3] and investment declines relative to peak periods have prompted concerns that capital spending levels are not sufficient to keep America competitive in the global economy. Although estimates of necessary capital spending may differ, according to the McKinsey Global Institute, the U.S. would need to spend an additional $150 billion a year through 2020 to meet infrastructure demand.[4] To put this in perspective, estimated total state expenditures for capital purposes reached $117.7 billion in calendar year 2012.[5] And while few public officials may be against additional capital infrastructure spending, immediate budgetary pressures can and often do take precedence over investments in projects that carry long-term benefits. The result is a greater reliance on past capital investments or pre-existing infrastructure. Yet, as assets are kept in operation longer, added efforts must be taken to keep those assets working after their recommended useful lives have expired. And for budget officers, capital budgeting increasingly entails balancing the acquisition of new assets with the rising maintenance costs necessary to maintain old ones. Continued prioritization of capital needs will be critical given that resources are expected to remain limited.

Federal Efforts to Address Infrastructure Investment

Recent developments by some Congressional lawmakers and the President convey a recognition that more could be done at the federal level to improve the nation's infrastructure. Bipartisan legislation has been introduced in both the House and Senate to establish a national infrastructure fund, providing $50 billion in loans or loan guarantees to states, municipalities and public-private partnerships to finance qualified state-sponsored infrastructure projects.[6] Similarly, President Obama has proposed a "fix-it-first" policy to address the backlog of deferred maintenance on the nation's highways, bridges, transit system and airports, as well as the creation of a national infrastructure bank. The President has also taken action through Executive Order 13604 to cut red tape and modernize the federal review and permitting process for infrastructure projects.

While these and other federal developments remain promising, there are recurring revenue problems that undermine the surface transportation programs that help fund the nation's roads and highways. The current financing system is not fiscally sustainable in part because federal fuel tax rates have not been increased or adjusted for inflation since 1993. Furthermore, fuel economy standards for newer vehicles have improved, reducing the amount of taxes paid per mile traveled since fuel is taxed on a cents per gallon basis.[7] Over the long-term, this means that the federal trust funds that provide grants to state and local governments for transportation purposes will likely continue to face

[1] The Brookings Institution. 2011. *"Innovations in U.S. Infrastructure Financing: An Evaluation."* pg. 2

[2] The Brookings Institution. 2011. *"Innovations in U.S. Infrastructure Financing: An Evaluation."* pg. 3. The Congressional Budget Office estimates that federal capital investment, which includes physical capital, research and development, and education and training, equates to 15.0 percent of annual federal spending and 3.0 percent of gross domestic product. See Congressional Budget Office. 2010. *"Federal Investment."*

[3] See The American Society for Civil Engineers. 2013. *"2013 Report Card for America's Infrastructure."*

[4] The McKinsey Global Institute. 2013. *"Game Changers: Five Opportunities for US Growth and Renewal."*

[5] United States Census Bureau. January 2014. *"State Government Finances Summary Report: 2012."* pg. 4.

[6] *H.R. 2084*, 113th Congress (2013) and S. 1957, 113th Congress (2014).

revenue problems as long as these programs are supported by taxes that no longer reflect road usage and/or fail to keep pace with inflation. According to the Congressional Research Service (CRS), "The era of automatic trust fund growth may be over, because annual vehicle miles traveled (VMT) are no longer increasing at the 2% average rate experienced from 1960s until 2008."[8]

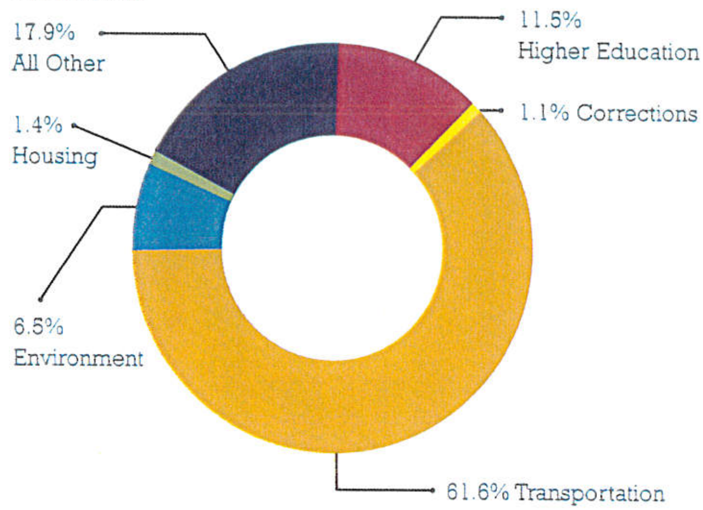
The President and members of Congress have proposed medium-term solutions to the nation's transportation funding needs that entail potential increases to fuel tax rates, additional revenue from corporate tax reform, and continued support from the general fund. Congress has solved revenue shortfalls in the past by transferring funds from the general fund to the Highway Trust Fund, which provides grants to states to help support the construction and maintenance of the nation's interstate highway system. However, this solution will continue to pose problems as long as revenues do not meet obligations, and long-term sustainability issues of the trust fund financing system itself remain unaddressed. The Congressional Budget Office (CBO) has proposed that Congress could address persistent annual shortfalls by cutting spending for surface transportation programs, by increasing revenues through motor fuel tax increases, or by adopting some combination of the two.[9] Without new sources of revenue, surface transportation programs may begin to change in scope over time, creating a greater need for state support as well as increased user fees through tolls. A number of states passed legislation in 2013 to change their transportation finances including Maryland, Massachusetts, Pennsylvania, Vermont, Virginia, and Wyoming. According to the National Conference of State Legislatures (NCSL), with the exception of Wyoming, all of these states moved to link the gas tax with the rate to inflation or the price of fuel.[10] Notably, Virginia eliminated the state's 17.5 cents-per-gallon gas tax, enacted a new wholesale gas tax, and dedicated a portion of the increased general sales tax to road funding.

Congress has solved Highway Trust Fund shortfalls in the past by transferring funds from the general fund; however, this solution will continue to pose problems as long as revenues do not meet obligations.

Budgeting for Infrastructure and the States

Similar to the federal government, rising budgetary pressures at the state level have posed challenges for infrastructure investments. The contraction of the economy during the Great Recession amplified capital spending constraints for states by increasing the demand for services and by causing revenues to rapidly decline. At times, increased demands for available resources led to capital project delays or even the scrapping of planned projects altogether. As a result, states continue to face tough capital spending decisions that too often only consider the most urgent needs, needs that extend beyond just roads and bridges. For instance, many states have noted that adequate resources for deferred maintenance projects, schools and water infrastructure remain elusive.[11] However, time and again, the public discourse regarding infrastructure is reduced to discussions about transportation, even though a sizeable amount of states' capital budget dollars flow to other program areas that often lack dedicated funding streams.

State Capital Expenditures by Program Area, Fiscal 2013



Source: NASBO State Expenditure Report, Fiscal Year 2012.
Note: Capital Spending for K-12 education is not included in this data set.

A greater understanding of the capital budgeting process can improve decisions involving immediate budgetary pressures as well as choices regarding investments in future government operations. For instance, capital budgeting can assist with decisions to invest in new facilities or maintain old ones. Budgetary decision-making in this context is not simplistic, and requires officials to consider costs and benefits in the present and future. The complexities inherent to such budgetary trade-offs can generally be better addressed by distinguishing infrastructure spending from spending on day-to-day operations. The delineation of capital and operating expenses helps strike a balance between immediate spending pressures and the need to invest in assets that produce a stream of benefits over longer time periods. Capital budgeting can also help link the broader goals of government, the economy, and society with statewide efforts to improve public services in areas like education or public safety. States have developed a variety of capital budgeting processes to achieve overall fiscal discipline in this context, but there is growing evidence that more needs to be done to secure investments in capital infrastructure.

[7] Congressional Research Service. April 2014. *"Funding and Financing Highways and Public Transportation."* Pg. 2.
[8] Congressional Research Service. April 2014. *"Funding and Financing Highways and Public Transportation."* Pg. 2.
[9] Congressional Budget Office. 2013. *"Statement for the Record on the Status of the Highway Trust Fund."*
[10] National Conference of State Legislatures. December 2013. *"Transport Report."* Vol. 4: Issue 9.
[11] The National Governors Association. January 2013. *"The Governors Speak, 2013."* pg. 2.

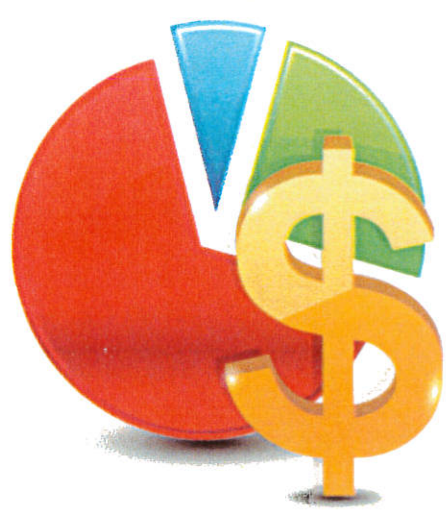
CHAPTER 4:
DEBT MANAGEMENT AND CAPITAL FINANCING

States have a variety of financing options that can be used in different ways to fund capital infrastructure projects. The financing process often begins with an analysis of the various funding sources that are available to pay for a project, and depending on the capital project, a combination of funding sources may be used to pay for its completion. The portfolio of funding sources may include general revenues, collections from specific taxes, user fees such as road tolls, proceeds from bond sales, designated capital improvement funds or partnerships with the private sector. Some capital projects are financed entirely through debt, or funds loaned to the state, under contractual terms that dictate a repayment schedule, similar to a home loan for individuals. Other infrastructure projects are paid for entirely from available resources or through some combination of debt and revenue from tax collections. Project financing options remain important for the capital project selection process and the composition of projects included in the capital budget.

Project financing options remain important for the capital project selection process and the composition of projects included in the capital budget.

To limit future budgetary risks from capital projects, most states have constitutional or statutory constraints on debt issuance, total outstanding debt levels or the allowable amount of funds that can be used for debt service. In addition to policy and legal restrictions, capital investments are also constrained by overall affordability, tax laws, the municipal bond market, intergovernmental aid, voter referendums, and the availability of general revenues and timing of cash flows. Decisions about the appropriate means to finance a project entail other considerations as well, such as the useful life of the project, intergenerational equity (are those benefiting from the project paying for it?), political acceptability, and the project's potential impact on economic growth. The characteristics of the capital project should therefore be analyzed and determined suitable for the proposed financing methods. For example, transportation projects are often funded entirely from revenue from the gas tax, which is considered a good proxy for road user fees.

The sale of debt is streamlined in many states through a centralized agency that may be an entity of the state, such as the state treasurer's office, or an independent financing authority that is responsible for issuing debt for state purposes. Entities responsible for the sale of debt work in conjunction with bond attorneys, financial underwriters, bond insurers and other institutional players that are involved in raising money and taking a bond offering to market for sale to investors. In addition to state treasurers or financing authorities, specific entities such as higher education institutions, hospitals or transportation departments may also have the legal authorization to sell bonds. The fiscal risks from debt issuance can be mitigated by restricting the number and types of organizations that can offer debt for sale. Furthermore, efficiencies of scale can be achieved by issuing debt for many projects in a single, larger offering. (See Table 30)



The fiscal risks from debt issuance can be mitigated by restricting the number and types of organizations that can offer debt for sale. Furthermore, efficiencies of scale can be achieved by issuing debt for many projects in a single, larger offering.

Once municipal bonds have been issued or sold to financial underwriters or investors, this debt is an obligation for repayment and is considered outstanding. States must monitor and track the status of outstanding debt by reviewing the repayment schedules, amounts still owed, and terms of agreements to ensure that funds are available to make payments on-time without disrupting spending for current operations. States, like individuals, also look to refinance loans to reduce borrowing costs. By having centralized debt monitoring, states can more easily refinance old debt to reduce interest payments, limit financial risks from debt issuance and reduce debt management costs.

Historically, municipal securities or municipal bonds have had significantly lower rates of default than corporate and foreign government bonds.[13] The debt repayment pledges from state or local governments can come in various forms and can be backed by different resource commitments. The phrase *general obligation* generally refers to a bond issued by a state or local government that carries the *full-faith-and-credit* of the issuer and repayment is guaranteed by the taxing power of the jurisdiction and other revenues. In contrast, a form of nonguaranteed debt, such as a revenue bond, is backed solely by the pledge of a specified revenue source. The issuer of revenue bonds is not obligated to pay principal and interest on its bonds using any source other than those specifically pledged in the bond agreement.

Because general obligation bonds represent a more comprehensive repayment pledge on behalf of the issuer, many states require voter approval before general obligation debt can be issued.

Because general obligation bonds represent a more comprehensive repayment pledge on behalf of the issuer, many states require voter approval before general obligation debt can be issued. (See Table 31) Increased scrutiny from appropriators, restrictions on use or additional voter requirements can make general obligation debt issuance more difficult compared to revenue bonds or other forms of nonguaranteed debt. When present, limits on revenue bonds are less restrictive and can change depending on the purpose of the debt and/or the issuing authority's guidelines. For these and other reasons, the majority of long-term state government debt is nonguaranteed or not general obligation.[14] While revenue bond programs may not require voter approval, they often must be authorized by the state legislature. For example, NASBO's prior edition of Capital Budgeting in the States showed that 38 states include revenue bonds as part of the capital

[13] U.S. Securities and Exchange Commission. July 2012. *"Report on the Municipal Securities Market."* Pg. ii.

[14] Mikesell, J. 2007. *"Fiscal Administration: Analysis and Applications for the Public Sector."* 7th Edition. Pg. 580.

[15] NASBO. 1999. *"Capital Budgeting in the States."* Table 22. Pg. 37.

budgeting process.[15] Historical trends show that the borrowing costs of general obligation bonds are lower compared to revenues bonds, although revenue bonds issued for services with relatively inelastic demand, such as electric utilities or water, carry a lower risk premium and thus interest rates closer to general obligation debt.[16]

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In addition to voter approval, 38 states have a constitutional, statutory, and/or policy provision in place to limit the total amount of outstanding general obligation debt. For a number of states, general obligation debt is not to exceed a percentage of revenue collections. Other states link general obligation debt limits to personal income, property valuations, or some other proxy measure of the tax base used to support debt repayment. Such metrics are often broadly referred to as debt ratios. (See Table 32) States may also have laws or policies in place to limit the amount that can be spent on general obligation debt service. Policies that serve to restrict debt service costs ensure that annual debt repayments do not crowd out other spending priorities in a given budget cycle. For example, North Carolina's Debt Affordability Advisory Committee has adopted a ratio of debt service as a percentage of revenues to measure and control debt capacity. (See Table 33) A number of states such as Colorado, Idaho, Nebraska, North Dakota, South Dakota, have laws that restrict the issuance of general obligation debt entirely.

Policies that serve to restrict debt service costs ensure that annual debt repayments do not crowd out other spending priorities in a given budget cycle.

Limits on total outstanding debt or debt service can mitigate budgetary risks from debt without necessarily assessing the capacity to issue new debt. However, a number of states have debt affordability criteria and/or conduct regular studies to assess the capacity for new debt. For states such as New Mexico or New Hampshire, the findings may or may not lead to formalized criteria that are used to assess debt capacity. New Mexico's State Board of Finance, for example, publishes an annual debt affordability study that tracks and projects outstanding debt as a percent of personal income as well as other metrics, but no firm policy is established limiting that figure. Similarly, Nevada maintains a Debt Capacity and Affordability Model to evaluate the state's ability to pay debt service on its bonds and its ability to issue additional bonds. Debt affordability criteria and debt capacity studies tend to be forward looking and can help states understand the capacity for future infrastructure projects within the context of a rapidly growing, stagnating or shrinking tax base. (See Table 34)

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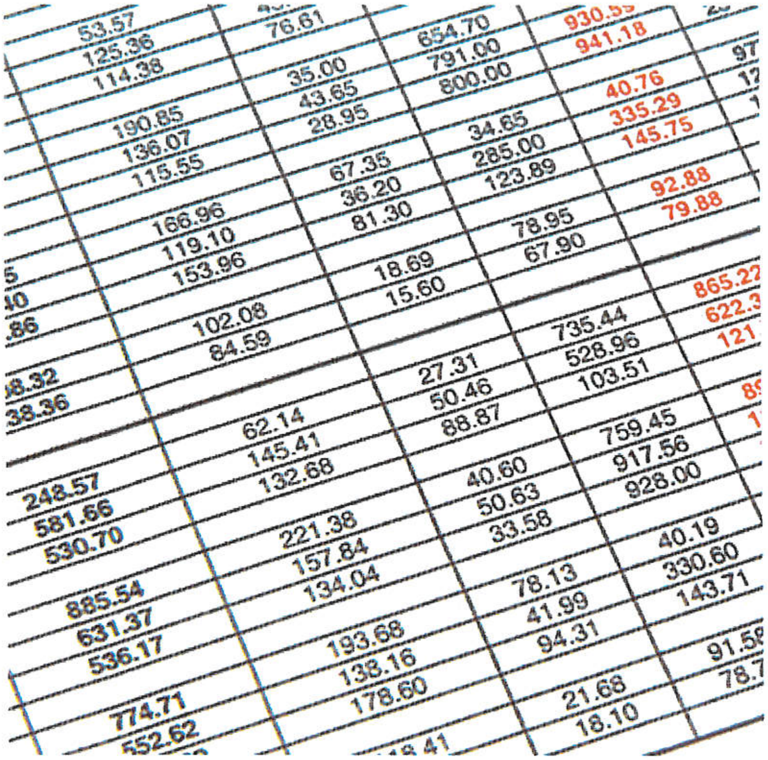
The transactions costs and other considerations that come into play with debt issuance can make pay-as-you-go capital project financing attractive, particularly during periods of high interest rates. Pay-as-you-go financing is the practice of paying for capital projects with cash currently available rather than with borrowed funds. If funds are available to finance capital projects without borrowing, states can reduce interest payments, initiate projects faster, increase flexibility in future operating budgets through lower debt service costs and free up debt capacity for projects more appropriately financed with debt. Twenty-two states reported that formal or informal pay-as-you-go policies are considered in decisions about project financing. States such as Alaska, Iowa, Missouri Nebraska and North Dakota generally use pay-as-you-go financing methods to pay for capital projects. West Virginia designates a portion of lottery receipts for pay-as-you-go financing for capital projects for schools. Other states, such as Oregon and Michigan, more commonly pay for specific parts of the capital improvement plan with cash, such as major maintenance or heating or cooling system replacements. For capital expenditure items with a relatively shorter useful life, cash may be a more cost-effective means of financing. (See Table 35)

[16] Guzman, T., and Moldogaziev, T. Fall 2012. *"Which Bonds Are More Expensive? The Cost Differentials by Debt Issue Purpose and the Method of Sale: An Empirical Analysis."* Public Budgeting and Finance. Volume 32, Number 3, Pgs. 79–101.



Debt service is a claim on future budgets that can limit spending flexibility if excessive because states often have provisions to pay debt service first, prior to funding other obligations.

If debt is used to finance a capital project instead of cash, states still need revenue to repay the loan obligation. Although not always the case, debt service (principle and interest payments) is generally treated as an operating expenditure that is funded through the normal appropriations process. However, states can also pay debt service costs through specific taxes or fees (including agency surcharges for space utilization), revenue generated from the capital project or through cash reserves that are outside the general fund. States make decisions on the amount of general funds to allocate for debt service based on available revenues as well as statutory/constitutional debt policies. Debt service is a claim on future budgets that can limit spending flexibility if excessive because states often have provisions to pay debt service first, prior to funding other obligations. To limit resource competition in the general fund, states can finance capital projects through non-general funds when feasible. (See Table 36)

For capital projects that utilize debt financing, there is often the need to finance a project on an interim basis until bonds with long-term maturities can be sold to a financial underwriter or investors.

For capital projects that utilize debt financing, there is often the need to finance a project on an interim basis until bonds with long-term maturities can be sold to a financial underwriter or investors. The most common interim financing options used by states are bond anticipation notes and commercial paper. Both borrowing instruments generally include terms of repayment within a year. The short-term loans are considered low risk because the repayment timeframe is short. Interim loans are backed by the expectation that the larger bond issue will take place and result in sufficient funds to repay the debt. Because larger bond issues are more complex and can take more time to go to market, interim financing allows construction to begin sooner, which can be an important consideration depending on the urgency of the project. (See Table 37)

However, the fiscal and political advantages and disadvantages of alternative financing methods should be weighed in the context of a particular project proposal, rather than ascribed as a panacea for solving state infrastructure problems.

In addition to bonds, designated taxes or fees, and general funds, capital projects can be financed in a number of other ways. The use of alternative capital financing options will likely continue to receive attention as state resources remain constrained. However, the fiscal and political advantages and disadvantages of alternative financing methods should be weighed in the context of a particular project proposal, rather than ascribed as a panacea for solving state infrastructure problems. For example, highway public-private partnerships can provide new transportation infrastructure without using public funds, reduce budgetary commitments, and transfer fiscal and construction risks from states to the private sector. Yet, many road projects can be done more cheaply under traditional models with tax exempt financing and without a need to account for profit margin, financial and legal advisor costs or a risk premium, which are all added costs that come with public-private partnerships.[17] Public benefits and costs must be analyzed extensively for individual projects to avoid sacrificing public interests for private returns. Twenty states report using public-private partnerships for financing capital projects. Most public-private partnerships with states are used for transportation projects.[18] A notable exception in California is the Long Beach courthouse recently built through a partnership model more often utilized in Canada, the United Kingdom and Australia.[19]

Public benefits and costs must be analyzed extensively for individual projects to avoid sacrificing public interests for private returns.

[17] United States Government Accountability Office. February 2008. *"Highway Public-Private Partnerships: More Rigorous Up-front Analysis Could Better Secure Potential Benefits and Protect the Public Interest."*

[18] According to the National Conference of State Legislatures, 33 states and Puerto Rico now have transportation public private partnership enabling legislation. See *"Public-Private Partnerships for Transportation: A Toolkit for Legislators February 2014 Updates and Corrections."*

[19] California Administrative Office of the Courts. September 2012. *"Governor Deukmejian Courthouse: An Evaluation of Agreement Development, Procurement Process & Performance During Design and Construction. A Performance Based Infrastructure Project, Long Beach, California."*

GOOD PRACTICES
IN CAPITAL FINANCING AND DEBT MANAGEMENT

- **The characteristics of capital projects should be analyzed to determine a suitable financing method.** By issuing long-term debt for costly infrastructure projects with long service lives, states can increase equity between generations without disrupting the operating budget. For projects financed with debt, the bond maturity or end of the debt repayment period should not exceed the useful life of the asset.

- **The number and types of state entities that can issue debt should be limited to increase fiscal control and decrease transaction costs.** Most state debt should be issued and managed through a centralized agency or financing authority to streamline debt management. Efficiencies of scale can be achieved by issuing or refinancing debt for many projects in a single, larger offering.

- **Develop clear debt policies that limit debt burdens to a percentage of revenue collections or the taxable base.** Policies regarding total outstanding debt and debt service ensure that prior spending commitments do not crowd out current and future operating budgets. Debt affordability criteria and debt assessments can provide useful information on the capacity to issue new debt.

- **When utilized appropriately, alternative capital financing options can provide effective solutions for capital needs.** Non-traditional capital financing models, including those that rely more heavily on the private sector, are generally more complex and less transparent. The costs and benefits to pursuing capital financing through alternative options should be analyzed and made clear.

- **Long-term leases represent future liabilities.** Long-term leases that are treated as an operating expense or as a capital expense should be reviewed in conjunction with other capital expenditures to have a more transparent and comprehensive view of future commitments.

Revolving loan funds are state funds that are borrowed by agencies for capital purposes, and upon loan repayment, the funds are loaned for another capital project.

More common alternative financing methods include, lease-purchase agreements (35 states), revolving loan funds (23 states), and certificates of participation (20 states). States often face decisions whether to own or lease a facility, and lease-purchase agreements represent a compromise between the two options. Lease-purchase agreements allow the state to lease a facility for a period of years with a commitment to purchase the space in the future. Revolving loan funds are state funds that are borrowed by agencies for capital purposes, and upon loan repayment, the funds are loaned for another capital project. This can reduce the transaction costs and interest costs that come with bond issuance. Certificates of participation are a type of financing that allows investors to directly purchase a share of lease payments rather than purchasing a bond. Most alternative financing methods, similar to bonds, are claims on future revenue collections and require repayment from general fund appropriations or specific taxes or fees. (See Table 38)

Irrespective of different budgeting treatments, long-term leases represent a future liability, and the fiscal commitments should be transparent.

Depending on the state or the specifics of a particular contract, long-term leases may be treated as an operating expense or a capital expense. Long-term leases may also be treated differently for budgeting purposes than for accounting purposes. Irrespective of different budgeting treatments, long-term leases represent a future liability, and the fiscal commitments should be transparent. The criteria set by generally accepted accounting principles can help states make decisions on the treatment of long-term leases for capital or operating purposes. Thirty-five states treat long-term leases as an operating expense, and 14 states treat long-term leases as a capital expense. And in nearly half of the states, long-term leases are subject to the same selection criteria as capital projects. States are also fairly evenly divided on whether or not they include long-term leases in the calculation of total outstanding debt. (See Table 39)

Table 30: Debt Issuance

State	Centralized Agency or Financing Authority is Primarily Responsible for Debt Issuance	Additional Explanation
Alabama*		
Alaska	X	G.O./revenue/lease/debt sold through centralized agency. Housing, economic development, student loan, bond bank, energy project debt all sold through public corporations.
Arizona		
Arkansas		Financing Structure and mechanisms in law.
California	X	
Colorado		Issued by individual Agencies as the State is not allowed to issue debt.
Connecticut	X	Office of the State Treasurer.
Delaware	X	
Florida	X	The State Board of Administration is the agency in Florida that issues debt.
Georgia	X	Georgia State Financing and Investment Commission
Hawaii	X	
Idaho	X	
Illinois	X	GOMB is the primary agency responsible to issue state debt although there is also a state finance authority for conduit debt.
Indiana	X	Indiana Finance Authority.
Iowa		Legislatively authorized debt can be issued by the Treasurer of State, Iowa Finance Authority and the Board of Regents.
Kansas	X	Kansas Development Finance Authority (this is not a state agency but an independent instrumentality).
Kentucky	X	The State Property & Buildings Commission and the Turnpike Authority of KY are the primary debt issuing authorities staffed by the Finance & Administration Cabinet's Office of Financial Management.
Louisiana	X	The Louisiana State Bond Commission centrally issues and administers all debt of the State and its agencies, as required by the Louisiana Constitution.
Maine	X	Office of the Maine State Treasurer.
Maryland	X	
Massachusetts	X	Debt of the Commonwealth is issued by the State Treasurer.
Michigan	X	State Building Authority.
Minnesota	X	Minnesota Management and Budget issues most state GO debt. There are some independent authorities in Minnesota that also have authority to issue state debt.
Mississippi	X	
Missouri	X	Debt issued through Board of Fund Commissioners.
Montana	X	
Nebraska	X	State Accounting for Master Lease arrangements; Board of Regents for Higher Education
Nevada	X	State Treasurer's Office.
New Hampshire	X	All State debt issued through the State Treasurer's Office.
New Jersey	X	
New Mexico	X	New Mexico issues debt through the State Board of Finance (centralized agency). In addition the Department of Transportation and the New Mexico Finance Authority have the authority to issue bonds.
New York	X	The Division of the Budget ("DOB") coordinates the State's debt issuance process for all State-supported bond sales, except for those issued by the Office the State Comptroller ("OSC"). Each fiscal year, the DOB prepares a proposed bond sale calendar that outlines the year's debt issuances to finance the capital projects authorized in the five-year Capital Program and Financing Plan. The calendar is developed based on the State's capital commitments and liquidity needs. For each bond sale, DOB establishes a timetable for deliverables, works collaboratively to structure the sales, and evaluates actual outcomes. New York State-supported bonds are issued primarily through three authorized issuers: The Dormitory Authority of the State of New York, the Empire State Development Corporation and the Thruway Authority. Also, the Comptroller of the State of New York issued debt for general obligation and LGAC purposes.
North Carolina	X	

NOTE: *See Notes to Table 30 on page 103.

Table 30: Debt Issuance

State	Centralized Agency or Financing Authority is Primarily Responsible for Debt Issuance	Additional Explanation
North Dakota	X	
Ohio	X	Ohio Public Facilities Commission.
Oklahoma	X	The Oklahoma State Bond Advisor's Office and the Oklahoma Capitol Improvements Authority issue debt for capital projects.
Oregon	X	The State Treasurer has over-all responsibility for issuance of state debt. The Department of Administrative Services (DAS) issues debt for most state equipment and facilities, The university system and community colleges issue state debt independent of DAS. Other agencies (Transportation, Housing, Environmental Quality, Economic Development, Energy, etc.) issue program specific debt.
Pennsylvania	X	
Rhode Island	X	The State Budget Office, in cooperation with the General Treasurer's Office, oversees the issuance of state debt and is responsible for ongoing tracking of debt issuances.
South Carolina	X	The Office of State Treasurer is the centralized agency for issuing all debt for state agencies and higher education institutions. That debt includes all general obligation debt as well as debt backed by revenue sources of the individual higher education institutions.
South Dakota	X	South Dakota Building Authority.
Tennessee	X	
Texas	X	Debt is primarily issued through the Texas Public Finance Authority. The Texas Department of Transportation and some higher education institutions also issue debt.
Utah	X	State Treasurer.
Vermont	X	State Treasurers Office.
Virginia	X	Debt is primarily issued by financing authorities such as the Virginia College Building Authority, the Virginia Public Building Authority, and the Virginia Public School Authority.
Washington	X	Once the legislature appropriates general obligation bond capacity, the State Finance Committee (Governor, Lieutenant Governor, and Treasurer) authorize the sale of bonds. The State Treasurer conducts bond sales and is the centralized agency responsible for management of all bonds.
West Virginia		
Wisconsin	X	
Wyoming		
District of Columbia	X	
Total	**43**	

NOTE: *See Notes to Table 30 on page 103.

Table 31: General Obligation Debt Issuance and Voter Approval

State	State requires Voter Approval Through a Statewide Referendum for General Obligation Debt Issuance
Alabama	X
Alaska	X
Arizona	
Arkansas	X
California	X
Colorado*	
Connecticut	
Delaware	
Florida	X
Georgia	
Hawaii	
Idaho	
Illinois	
Indiana	
Iowa*	
Kansas	X
Kentucky	X
Louisiana	
Maine*	X
Maryland	
Massachusetts	
Michigan	X
Minnesota*	
Mississippi	
Missouri	X
Montana	
Nebraska*	
Nevada	
New Hampshire*	
New Jersey	X
New Mexico	X
New York	X
North Carolina	X
North Dakota	
Ohio	X
Oklahoma	X
Oregon*	
Pennsylvania*	
Rhode Island	X
South Carolina	
South Dakota*	
Tennessee	
Texas*	X
Utah	
Vermont	
Virginia*	
Washington*	
West Virginia	X
Wisconsin	
Wyoming	
District of Columbia	
Total	**19**

NOTE: *See Notes to Table 31 on page 103.

Table 32: State Policies Regarding Total Outstanding General Obligation Debt

State	State Has a Constitutional, Statutory, and/or Policy Limit Regarding Total Outstanding General Obligation Debt	Brief Description of the General Obligation Debt Limit Provision
Alabama		
Alaska	X	Policy is linked to revenue.
Arizona	X	The constitution states, debt "shall never exceed the sum of three hundred and fifty thousand dollars."
Arkansas		Statutory limits can exist.
California		
Colorado		
Connecticut	X	No bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the general assembly except such as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the general assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed one and six tenths times the total general fund tax receipts of the State for the fiscal year in which any such authorization will become effective, as estimated for such fiscal year by the joint standing committee of the general assembly having cognizance of finance, revenue and bonding in accordance with section 2.35.
Delaware	X	Statutory Limit —The aggregate principal amount of new tax-supported obligations of the State which may be authorized in any one fiscal year may not exceed 5.0 percent of estimated net budgetary General Fund revenue for that fiscal year.
Florida		Per Chapter 215.98, Florida Statutes, the Legislature declares that it is the policy of this state to exercise prudence in undertaking the authorization and issuance of debt. In order to implement this policy, the Legislature desires to authorize the issuance of additional state tax-supported debt only when such authorization would not cause the ratio of debt service to revenue available to pay debt service on tax-supported debt to exceed 6.0 percent. If the 6.0 percent target debt ratio will be exceeded, the authorization of such additional debt must be accompanied by a legislative statement of determination that such authorization and issuance is in the best interest of the state and should be implemented. The Legislature shall not authorize the issuance of additional state tax-supported debt if such authorization would cause the designated benchmark debt ratio of debt service to revenues available to pay debt service to exceed 7.0 percent unless the Legislature determines that such additional debt is necessary to address a critical state emergency.
Georgia	X	By Constitution, maximum FY debt is limited to 10.0 percent of prior FY treasury receipts. The target ratio is 7.0 percent per the State Debt Management Plan (policy).
Hawaii	X	Principal and interest may not exceed debt limit of 18.5% of general fund revenues for past 3 years.
Idaho	X	No general obligation debt allowed.
Illinois	X	There is a statutory limit on authorization for debt issuance.
Indiana	X	
Iowa	X	Iowa Constitution allows up to $250,000 may be issued in general obligation debt.
Kansas	X	
Kentucky	X	KY's Constitution limits general obligation debt to $500,000 and requires voter approval for such debt. KY has not issued general obligation debt in the last 50 years. KY issues appropriation backed lease revenue debt for which debt service appropriations are renewed biennially.
Louisiana	X	Statute limits total G.O. Bonds relative to average annual bond earnings.
Maine	X	The informal policy limit on debt is that the debt service does not exceed 5.0 percent of the General Fund or Highway Fund revenues.
Maryland	X	8.0 percent of available revenues.
Massachusetts	X	There is a statutory limit regarding general obligation debt which grows 5.0 percent each year.
Michigan*		
Minnesota	X	Policy: Total tax-supported principal outstanding should not exceed 3.25 percent of total state personal income.
Mississippi	X	No more than one and one-half (1 1/2) times the sum of all revenue collected during any one of the preceding four fiscal years, whichever year might be higher.
Missouri		
Montana	X	The legislature must approve the amount to be bonded.

NOTE: *See Notes to Table 32 on page 104.

Table 32: State Policies Regarding Total Outstanding General Obligation Debt

State	State Has a Constitutional, Statutory, and/or Policy Limit Regarding Total Outstanding General Obligation Debt	Brief Description of the General Obligation Debt Limit Provision
Nebraska	X	State Constitution, Section XIII-1, prohibits General Obligation Debt. Revenue Bonds are allowed for Higher Education and road construction, under specific circumstances.
Nevada	X	Constitution limits general obligation debt to 2.0 percent of total statewide assessed value with some exceptions such as debt issued for natural resources.
New Hampshire		
New Jersey	X	Combined debt cannot exceed 1.0 percent of total appropriations unless authorized by law and brought to voters for approval at a general election.
New Mexico	X	General obligation debt is constitutionally limited to 1.0 percent of net taxable property values.
New York	X	The Debt Reform Act of 2000 limits the amount of new State-supported debt to 4.0 percent of State personal income and new State-supported debt service costs to 5.0 percent of All Funds receipts. The restrictions apply to all new State-supported debt issued since April 1, 2000, which includes general obligation debt.
North Carolina	X	In 2004 the NC General Assembly adopted legislation creating the Debt Affordability Advisory Committee to annually advise the Governor and the General Assembly of the estimated debt capacity of the state for the upcoming 10 years.
North Dakota*	X	Up to $2.0 million unsecured and up to $10.0 million secured by real estate.
Ohio	X	Unless specifically exempted, debt service payments on debt backed by the General Revenue Fund may not exceed 5.0 percent of prior year revenue.
Oklahoma	X	
Oregon	X	There is a constitutional limitation on amount of outstanding debt for each individual GO program based on a percentage of value of real property in the state. Revenue bond programs typically have a statutory limit on level of outstanding debt. Oregon Law established The State Debt Policy Advisory Commission that establishes targets/limits for new amounts of General Fund supported debt from all sources (and Lottery Bond debt). The longstanding policy is that the amount of new GF-supported debt is limited to no more than an amount that would result in GF debt service being equal to 5.0 percent of projected GF revenue. Lottery debt is limited to a 4x coverage ratio (projected revenues must be > 400% of projected debt service).
Pennsylvania	X	Per Constitution, outstanding debt is limited to 1.75 times the average five-year tax revenues.
Rhode Island	X	The Public Finance Management Board has established guidelines overseeing the issuance of debt.
South Carolina	X	Constitutional and statutory. Both provisions limit the outstanding general obligation debt is limited such that debt service does not exceed 6.0 percent of prior year general fund revenues. Of that 6.0 percent, 5.0 percent is for capital improvement bonds, 0.5 percent is for economic development bonds and 0.5 percent is for research university infrastructure bonds. These limits do not include highway bonds or institution bonds for higher education.
South Dakota		
Tennessee	X	There is a statutory requirement on how much debt can be issued based on the estimated growth in state revenues.
Texas	X	Article 3 Section 49J limits state debt payable from the general revenue fund. This limit for general obligation debt service serves to limit total outstanding general obligation debt.
Utah	X	Constitutional 1.5 percent of total fair market value of taxable property.
Vermont		
Virginia	X	There is a constitutional limit based on a percentage of average annual revenue derived from income and sales taxes: 1.15 X average annual income and sales tax revenues for three immediately preceding fiscal years.
Washington*	X	With certain exceptions included in the table notes, the amount of state general obligation debt that may be incurred is limited by the Constitution.
West Virginia		
Wisconsin	X	General obligations issued by the State are subject to debt limits set forth in the Wisconsin Constitution and the Wisconsin Statutes. There is an annual debt limit of 0.75 percent, and a cumulative debt limit of 5.0 percent, of the aggregate value of all taxable property in the state.
Wyoming		
District of Columbia		
Total	**38**	

NOTE: *See Notes to Table 32 on page 104.

Table 33: State Policies Regarding General Obligation Debt Service

State	State Has a Constitutional, Statutory, and/or Policy Limit Regarding General Obligation Debt Service	Description of the General Obligation Debt Service Provision
Alabama		
Alaska	X	Policy linked to revenue.
Arizona		
Arkansas		
California		
Colorado		
Connecticut		
Delaware	X	Statutory Limit—No tax-supported obligations of the State and no Transportation Trust Fund (TTF) debt obligations of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15.0 percent of the estimated aggregate budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred. No general obligation debt may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances for the fiscal year following the fiscal year in which such obligation is incurred.
Florida	X	Bond programs with a specific tax pledge and the full faith and credit of the state have constitutional or statutory coverage provisions.
Georgia	X	See description in Table 34.
Hawaii	X	Principal and interest may not exceed debt limit of 18.5% of general fund revenues for past 3 years.
Idaho		
Illinois	X	There is a limit based on a percentage of prior year appropriation.
Indiana		
Iowa	X	Iowa Constitution allows up to $250,000 may be issued in general obligation debt.
Kansas		
Kentucky	X	It has been a policy goal to keep outstanding appropriation backed lease revenue debt service at approx. 6.0 percent of total revenue.
Louisiana	X	Statute limits total debt to limit debt service relative to total annual revenue.
Maine	X	The informal policy limit on debt is that the debt service does not exceed 5.0 percent of the General Fund or Highway Fund revenues.
Maryland	X	Net tax-supported debt at 4.0 percent of personal income.
Massachusetts	X	The Administration's policy is to limit total debt service, which includes some general and non-general obligation debt to 8.0 percent of budgeted revenues each year.
Michigan		
Minnesota		
Mississippi		
Missouri		
Montana		
Nebraska		Does not apply. The State Constitution prohibits General Obligation Debt at the State level.
Nevada	X	State of Nevada general obligation debt is paid from a dedicated property tax rather than its general fund. The state's debt management policy has an objective to have a reserve within the Consolidated Bond Interest and Redemption Fund balance at the end of each fiscal year equal to at least 50.0 percent of the next fiscal year's debt service.
New Hampshire	X	NH RSA 6-C:2 limits any additional tax supported debt if the projected annual debt service exceeds 10.0 percent of unrestricted general fund revenues. Ceiling can be exceeded only by a 3/5 vote of the Legislature.
New Jersey		
New Mexico		Although the total debt outstanding is limited to 1.0 of net taxable property values by the State Constitution, debt service on that debt is not formally limited. When voters approve projects to be financed with general obligation debt, they agree to be taxed at whatever property tax mill rate is necessary to repay the associated debt.

NOTE: *See Notes to Table 33 on page 105.

Table 33: State Policies Regarding General Obligation Debt Service

State	State Has a Constitutional, Statutory, and/or Policy Limit Regarding General Obligation Debt Service	Description of the General Obligation Debt Service Provision
New York	X	The Debt Reform Act of 2000 limits the amount of new State-supported debt to 4.0 percent of State personal income and new State-supported debt service costs to 5.0 percent of All Funds receipts. The restrictions apply to all new State-supported debt issued since April 1, 2000, which includes general obligation debt.
North Carolina	X	The Debt Affordability Advisory Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity.
North Dakota*	X	10.0 percent of 1 cent sales tax.
Ohio	X	Unless specifically exempted, debt service payments on debt backed by the General Revenue Fund may not exceed 5.0 percent of prior year revenue.
Oklahoma		
Oregon	X	See description in Table 34.
Pennsylvania	X	Capital Budget Authorization limits the annual bond purchases.
Rhode Island	X	Debt service should not exceed 7.5 percent of state general revenue.
South Carolina	X	See description in Table 34.
South Dakota		
Tennessee	X	The first year general obligation debt service requirement is budgeted on a recurring basis beginning with the year bonds are authorized.
Texas	X	Under Article 3 Section 49J of the Texas Constitution, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5.0 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.
Utah		
Vermont		
Virginia		There is no limit on debt service specifically for general obligation debt. There is an affordability guideline that is applicable for debt service for all tax-supported debt. See description in Table 36.
Washington*	X	With certain exceptions listed in Table 36 notes, the amount of state general obligation debt that may be incurred is limited by the Constitution.
West Virginia		
Wisconsin		
Wyoming		
District of Columbia	X	District legislation caps the debt service (for any year over the 6-year CIP period) at 12.0 percent of the planned General Fund expenditures. The Home Rule Act has a more liberal requirement of 17.0 percent.
Total	**25**	

NOTE: *See Notes to Table 33 on page 105.

Table 34: State Debt Affordability Criteria

State	State Has Debt Affordability Criteria	Description of the Debt Affordability Criteria
Alabama	X	
Alaska	X	Percentage of revenue.
Arizona		
Arkansas		
California		
Colorado		
Connecticut		
Delaware		
Florida	X	Net tax supported debt service as a percentage of revenues available.
Georgia	X	Per Debt Management Plan, the target ratio for debt is less than 3.5 percent of personal income and less than $1,200 debt per capita.
Hawaii		
Idaho		
Illinois	X	Affordability is determined primarily based on the estimated revenues that go towards debt service.
Indiana		
Iowa		
Kansas		
Kentucky	X	It has been a policy goal to keep outstanding debt service at approximately 6.0 percent of total revenue
Louisiana		
Maine		Though not used as criteria, total outstanding debt as a percent of personal income is calculated.
Maryland	X	Net tax-supported debt at 4% of personal income.
Massachusetts	X	8.0 percent of budgeted revenues.
Michigan		
Minnesota	X	Policy: Total tax-supported principal outstanding should not exceed 3.25 percent of total state personal income.
Mississippi		
Missouri		
Montana	X	It is considered before additional debt is considered.
Nebraska		
Nevada	X	Nevada maintains a Debt Capacity and Affordability model to evaluate the state's ability to pay debt service on its bonds and its ability to issue additional bonds. The state's debt management policy has an objective to have a reserve within the Consolidated Bond Interest and Redemption Fund balance at the end of each fiscal year equal to at least 50.0 percent of the next fiscal year's debt service.
New Hampshire	X	Internal criteria only, NH has extensive debt affordability study conducted by outside experts annually.
New Jersey		
New Mexico		The State Board of Finance publishes an annual debt affordability study that tracks and projects outstanding debt as a percent of personal income as well as other metrics, but no firm policy is established limiting that figure. The debt affordability study includes debt issued by the State Board of Finance, the Department of Transportation, and lease-appropriation debt. The debt affordability study also compares New Mexico's debt ratios to its peer states with similar ratings.
New York	X	The Debt Reform Act of 2000 limits the amount of new State-supported debt to 4.0 percent of State personal income and new State-supported debt service costs to 5.0 percent of All Funds receipts. The restrictions apply to all new State-supported debt issued since April 1, 2000.
North Carolina	X	The net tax-supported debt to personal income ratio has been established with a target of 2.5% and a maximum ceiling of 3%.
North Dakota		
Ohio		
Oklahoma		
Oregon		
Pennsylvania	X	Per Constitution, outstanding debt is limited to 1.75 times the average five-year tax revenues.

Table 34: State Debt Affordability Criteria		
State	State Has Debt Affordability Criteria	Description of the Debt Affordability Criteria
Rhode Island	X	Tax supported debt should not exceed 6.0 percent of personal income.
South Carolina		
South Dakota		
Tennessee		
Texas	X	As of August 31, 2012, the Constitutional Debt Limit (CDL) for outstanding debt was 1.34 percent of the three-year average of unrestricted General Revenue Funds.
Utah		
Vermont	X	
Virginia	X	The debt affordability measure is based on maintaining the annual debt service on all tax-supported debt at no more than five percent of forecast tax revenues.
Washington		
West Virginia		
Wisconsin		
Wyoming	X	1.0 percent of assessed value of taxable property.
District of Columbia		
Total	20	

Table 35: Financing Capital Projects		
State	State Maintains a Formal or Informal Pay-As-You-Go Policy for Financing Capital Projects	Additional Explanations on Formal or Informal Pay-As-You Go Policies and Bond Financing Capital Projects
Alabama		
Alaska		Alaska relies heavily on pay-as-you-go.
Arizona		
Arkansas		
California		
Colorado		
Connecticut		
Delaware	X	
Florida	X	Florida uses both pay-as-you-use and pay-as-you-go. Department of Management Services (DMS) and the State University System (SUS) both issue bonds for new construction and sometimes for major repairs. Agencies along with DMS and SUS use the "pay as you go" through the appropriation of capital and expense budgets.
Georgia		
Hawaii		
Idaho	X	
Illinois	X	Agencies typically manage their own pay-as-you-go capital projects so long as revenues are sufficient to fund the projects. The affordability of those projects are reviewed by GOMB.
Indiana		
Iowa	X	For the most part, Iowa is a pay-as-you-go state for capital projects.
Kansas		
Kentucky		
Louisiana	X	G.O. Bonds and lines of credit are often issued in similar amounts annually.
Maine	X	Capital project requests are made in each biennial budget bill.
Maryland		
Massachusetts		
Michigan	X	Bond financing is reserved for major capital projects. A recently implemented statutory reform requires that when major projects are authorized for construction, the debt service for the project must also be appropriated in the budget so that the capital spending/budgeting decisions are made concurrently. The preference is to pay for special maintenance projects on a pay-go basis.
Minnesota	X	The state can only issue bonds to finance capital bonding projects and/or programs with the state's general obligation bonds that have been signed into law. Every year, the agency requests how much money for those projects is needed to fund them for the next year. The state only issues bonds for those projects or portions of projects that need money within the next year.
Mississippi	X	The State Bond Commission approves the issuance of Bonds on an annual basis, and considers the financing needs for the next 12–15 months.
Missouri	X	In general, the state maintains a pay-as-you-go policy; however, bond issuances are occasionally used to fund capital projects.
Montana		
Nebraska	X	Debt financing is limited to Higher Education revenue bonds and Higher Education Financing Authority instruments. All other capital projects financed on a pay-as-you-go policy.
Nevada	X	Nevada's debt management policy states bonding should be used only after considering alternative funding sources, such as pay-as-you-go funding from current revenues, Federal and State grants, and special assessments.
New Hampshire		New Hampshire funds the vast majority of capital projects through bonding.
New Jersey		

Table 35: Financing Capital Projects

State	State Maintains a Formal or Informal Pay-As-You-Go Policy for Financing Capital Projects	Additional Explanations on Formal or Informal Pay-As-You Go Policies and Bond Financing Capital Projects
New Mexico		General obligation bonds are limited by policy to 10 years, and only 10-year bonds are issued. Severance tax bonds are statutorily allowed to be issued for up to 10 years, but the Board also routinely issues short-term severance tax notes to use additional severance tax revenues to finance capital projects on a pay-as-you-go basis.
New York		Based on availability of funds and type of project.
North Carolina	X	Historically, capital improvement projects have been funded with tax revenue over collections and/or state agency reversions.
North Dakota	X	Debt is incurred for capital projects only when current state general and special fund revenues are inadequate to meet the capital budget needs.
Ohio		
Oklahoma	X	
Oregon		As the primary landlord for state agencies, the Department of Administrative Services (DAS) traditionally funds certain types of capital projects on a pay-as-you-go basis using rent revenues. Such projects include major building envelope repairs, roof or carpet replacements, HVAC system upgrades, etc.
Pennsylvania	X	Only for projects financed by general revenues; included within the Governor's Executive Budget.
Rhode Island	X	Constitution establishes the Rhode Island Capital Plan Fund which is to be used for pay-as-you-go capital projects. Funding is derived from surplus funds in the Budget Reserve (rainy day) fund per prescribed formula.
South Carolina	X	For projects not funded with some sort of bond funds, the funding for the projects must be available to the agencies or institutions at the time the projects are approved. Projects cannot be approved for construction with the promise of funding at a future time. Therefore, when projects are submitted for approval by Joint Bond Review Committee and Budget and Control Board, the agency submitting it must already have the availability of the funds for expenditure before the construction budget is approved.
South Dakota		
Tennessee		
Texas	X	Article III, Section 49a, of the Texas Constitution sets out the "pay-as-you-go" limit. It requires that bills making appropriations be sent to the Comptroller of Public Accounts (CPA) for certification those appropriations are within available revenue. Capital projects must be within this "pay-as-you-go" limit as well when they are part of appropriations.
Utah		
Vermont	X	Informal—situational.
Virginia		
Washington		
West Virginia	X	School Building Authority - $22.0 million of Lottery appropriations are designated "Pay As You Go".
Wisconsin		
Wyoming		
District of Columbia	X	Certain identified dedicated revenue streams are moved through Paygo to capital projects during formulation. Further, we use available/unneeded operating budgets and transfer the budget through Paygo to capital projects.
Total	22	

Table 36: Sources of Revenue for Repayment of Debt Issued to Finance Capital Projects				
State	**General Fund**	**Specific Taxes or Fees**	**Cash Reserves Not in the General Fund**	**Revenue Generated from the Capital Project**
Alabama	X	X		X
Alaska	X	X		X
Arizona	X	X	X	X
Arkansas	X	X	X	X
California	X	X		
Colorado*	X			
Connecticut	X	X		
Delaware	X			
Florida	X	X		X
Georgia	X			
Hawaii	X	X		X
Idaho	X	X		
Illinois	X	X		
Indiana	X	X		X
Iowa		X		X
Kansas	X	X		X
Kentucky	X	X		X
Louisiana	X			X
Maine*	X	X		
Maryland		X		
Massachusetts	X	X		X
Michigan	X			
Minnesota	X			
Mississippi	X			X
Missouri	X	X	X	X
Montana	X	X		
Nebraska	X	X		X
Nevada		X		X
New Hampshire	X	X		X
New Jersey	X	X		
New Mexico	X	X	X	
New York	X	X		X
North Carolina	X	X	X	X
North Dakota	X	X		
Ohio	X			
Oklahoma	X	X	X	X
Oregon	X	X		X
Pennsylvania	X	X	X	
Rhode Island	X	X		
South Carolina	X	X	X	X
South Dakota	X	X	X	X
Tennessee	X	X	X	X
Texas	X	X		X
Utah	X	X		
Vermont	X			
Virginia	X	X		X
Washington	X			
West Virginia	X	X		X
Wisconsin	X	X		X
Wyoming	X	X		X
District of Columbia	X	X		X
Total	**47**	**40**	**10**	**29**

NOTE: *See Notes to Table 36 on page 105.

Table 37: Interim Borrowing Instruments used for Capital Purposes

State	Treasury Loans	Tax Anticipation Notes	Bond Anticipation Notes	Commercial Paper	Other
Alabama*					
Alaska*			X		X
Arizona					
Arkansas	X				
California	X			X	
Colorado*					X
Connecticut					
Delaware					
Florida*					
Georgia*					
Hawaii	X				
Idaho					
Illinois					
Indiana			X	X	
Iowa				X	
Kansas			X		
Kentucky			X	X	
Louisiana					
Maine			X		
Maryland					
Massachusetts			X	X	
Michigan				X	
Minnesota					
Mississippi	X		X	X	
Missouri				X	
Montana*					
Nebraska*					
Nevada					
New Hampshire*			X		X
New Jersey*					
New Mexico					
New York					
North Carolina					
North Dakota*					X
Ohio					
Oklahoma					
Oregon		X			
Pennsylvania			X		
Rhode Island*			X		
South Carolina*	X		X	X	
South Dakota					
Tennessee				X	
Texas		X	X	X	
Utah					
Vermont					
Virginia	X				
Washington					
West Virginia					
Wisconsin*					
Wyoming					
District of Columbia		X			
Total	**6**	**2**	**12**	**11**	**4**

NOTE: *See Notes to Table 37 on page 106.

Table 38: Alternative Capital Financing Methods

State	Certificates of Participation (COP)	Lease-Purchase Agreements	Public-Private Partnerships	Tax Increment Financing (TIF)	Revolving Loan Funds	Private Sector Development Bonds	Other
Alabama*		X		X			
Alaska	X	X			X		
Arizona	X	X	X				
Arkansas					X		
California*		X					X
Colorado*	X	X					X
Connecticut		X	X	X	X		
Delaware*		X					X
Florida	X	X	X		X		
Georgia			X				
Hawaii	X	X	X				
Idaho							
Illinois			X	X	X		
Indiana		X	X		X		
Iowa							
Kansas	X	X	X	X	X		
Kentucky		X	X		X		
Louisiana							
Maine	X	X					
Maryland		X	X		X		
Massachusetts		X		X	X		
Michigan	X	X	X				
Minnesota*	X	X					X
Mississippi	X	X	X				
Missouri				X	X		
Montana					X		
Nebraska		X	X				
Nevada*	X	X			X		
New Hampshire		X					
New Jersey	X	X	X				
New Mexico*		X		X	X	X	
New York		X					
North Carolina	X	X			X		
North Dakota		X					
Ohio	X				X		
Oklahoma		X	X				
Oregon		X					
Pennsylvania							
Rhode Island*	X	X			X		
South Carolina	X		X	X	X		
South Dakota	X				X		
Tennessee*							X
Texas		X	X		X	X	
Utah							
Vermont	X	X	X	X	X		
Virginia		X	X		X		
Washington	X	X					
West Virginia		X	X	X	X		
Wisconsin	X	X				X	
Wyoming							
District of Columbia	X	X		X			
Total	**20**	**35**	**20**	**10**	**23**	**3**	**5**

NOTE: *See Notes to Table 38 on page 106.

Table 39: Long-Term Leases

State	Long-Term Leases Primarily Treated as an Operating Expense	Long-Term Leases Primarily Treated as a Capital Expense	Long-Term Leases Are Subject to Selection Criteria Similar to Capital Projects	Long-Term Leases Included in the Calculation of Total Outstanding Debt
Alabama*		X		Sometimes
Alaska		X	X	Sometimes
Arizona		X		X
Arkansas*		X	X	X
California	X			
Colorado	X		X	
Connecticut	X			
Delaware	X		X	Sometimes
Florida	X		X	Sometimes
Georgia*		X		Sometimes
Hawaii	X		X	
Idaho	X			
Illinois	X		X	X
Indiana	X			X
Iowa	X		X	
Kansas*	X		X	
Kentucky*	X		X	X
Louisiana	X			
Maine	X			X
Maryland*		X	X	X
Massachusetts		X	X	X
Michigan		X	X	
Minnesota		X		X
Mississippi	X		X	
Missouri	X			
Montana	X			X
Nebraska	X		X	X
Nevada*	X			
New Hampshire*				X
New Jersey	X			Sometimes
New Mexico	X			X
New York	X			
North Carolina	X			X
North Dakota	X		X	
Ohio*		X	X	X
Oklahoma		X		X
Oregon*	X			Sometimes
Pennsylvania*	X			
Rhode Island*		X		X
South Carolina*	X			X
South Dakota*	X		X	X
Tennessee	X		X	
Texas*	X		X	X
Utah	X			
Vermont	X			
Virginia		X	X	X
Washington	X		X	
West Virginia		X	X	X
Wisconsin*	X			
Wyoming	X			
District of Columbia*	X			Sometimes
Total	**35**	**14**	**23**	**22**

NOTE: *See Notes to Table 39 on page 107.

CHAPTER 4: TABLE NOTES

Debt Management and Capital Financing

Notes to Table 30: Debt Issuance

Alabama	There are multiple financing authorities with the authority to issue debt.

Notes to Table 31: General Obligation Debt Issuance and Voter Approval

Colorado	Colorado doesn't have any General Obligation debt or revenue bonds because of limitations of TABOR.
Iowa	Iowa Constitution allows for up to $250,000 to be issued in general obligation debt after a public referendum.
Maine	The Constitution of Maine, Article IX, Sections 14 through 14-D, address the authority and procedure for issuance of bonds. Section 14 states that the Legislature can approve bonds up to $2 million without voter approval.
Minnesota	Voter approval is not required, but legislative vote must have 60.0 percent majority to incur general obligation debt. Other types of debt require only simple majority.
Nebraska	General Obligation debt cannot be issued at the state level in Nebraska.
New Hampshire	General obligation debt issuance is authorized by legislature through statute.
Oregon	Approval by voters through a statewide referendum initially establishes the GO program. Thereafter, the Legislative Assembly authorizes amounts to be issued for a biennium within the constitutional limitations on total debt outstanding permitted for a given program.
Pennsylvania	Most general obligation debt issuances do not, but some specialized activities were approved through voter referendum.
South Dakota	There is no general obligation debt for our state.
Texas	The state requires the issuance to be authorized by a constitutional amendment, approved by 2/3 of the state legislature, and receive voter approval through a referendum.
Virginia	Pure general obligation debt repaid from general fund appropriations requires voter approval. General obligation debt repaid from auxiliary revenues (e.g. dorm fees, tolls) that use the general obligation as a back-up ("double barreled" debt) can be authorized by the legislature without a referendum.
Washington	Voter approval is only required if the Legislature wishes to issue general obligation debt outside of the Washington State debt limit set by the Constitution.

CHAPTER 4: TABLE NOTES

Debt Management and Capital Financing

Notes to Table 32: State Policies Regarding Total Outstanding General Obligation Debt

Michigan	Michigan's capital budget is not predicated on the issuance of general obligation debt. Rather our debt financing consists of revenue bonds issued via the State Building Authority. The revenue vehicle for the retirement of the bonds is a lease established between the state and the State Building Authority for the use of the intended facility. The State Building Authority has a cap of $2.7 billion. Its current bond ratings are as follows: Moody's Aa3, Standard & Poor's A+, Fitch AA-.
New York	The State has financed approximately 75 percent of its bonded capital expenditures over the past five years with Personal Income Tax Revenue Bonds, which are rated AAA by Standard and Poor's. That compares to less than 10.0 percent that were financed with general obligation bonds.
North Dakota	The state does not issue G.O. debt.
Washington	With certain exceptions noted below, the amount of state general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of general state revenues for the three immediately preceding Fiscal Years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years. Under the Constitution, "general state revenues" includes all state money received in the state treasury, with certain exceptions, including (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise then for general purposes of the state; (3) retirement system moneys and performance bonds and deposits; (4) trust fund money, including money received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness. Legislation adopted in 2011 directs that the Committee set a more restrictive working debt limit for budget development purposes. The working limit phases down to 7.75 percent by Fiscal Year 2022, starting in Fiscal Year 2016. The Committee may adjust that working debt limit due to extraordinary economic conditions. In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, general state revenues will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue will be expanded to include property taxes received by the state; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034). The amendment was intended to stabilize and smooth the state's ability to borrow; gradually reduce the state's long-term debt burden; and lower the share of the operating budget used to pay principal and interest on debt. In some years, the new constitutional limits are anticipated to be more restrictive than the previously approved statutory working debt limits. Principal and interest requirements on the following types of obligations are excluded from the calculation of the constitutional debt limitation: (1) obligations payable from excise taxes levied on motor vehicle fuels, license fees, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles; (2) debt that has been refunded or defeased; (3) debt authorized by law for a single work or object and approved by a majority of those voting in a general or special election; (4) certificates of indebtedness issued to meet temporary deficiencies in the state treasury (described above under "General Obligation Debt Authority"); (5) principal requirements of bond anticipation notes; (6) financing contracts, including certificates of participation therein; (7) obligations issued to pay "current expenses of state government"; (8) obligations payable solely from the revenues derived from the ownership or operation of any particular facility or project; (9) obligations payable solely from gifts, grants, donations, aid or assistance that is limited to expenditure on specific purposes; and (10) any state guarantee of voter-approved general obligation debt of school districts in the state.

CHAPTER 4: TABLE NOTES

Debt Management and Capital Financing

Notes to Table 33: State Policies Regarding General Obligation Debt Service

North Dakota	Statutory debt service relates to appropriation debt.
Washington	With certain exceptions noted below, the amount of state general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of general state revenues for the three immediately preceding Fiscal Years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years. Under the Constitution, "general state revenues" includes all state money received in the state treasury, with certain exceptions, including (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise then for general purposes of the state; (3) retirement system moneys and performance bonds and deposits; (4) trust fund money, including money received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness. Legislation adopted in 2011 directs that the Committee set a more restrictive working debt limit for budget development purposes. The working limit phases down to 7.75 percent by Fiscal Year 2022, starting in Fiscal Year 2016. The Committee may adjust that working debt limit due to extraordinary economic conditions. In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, general state revenues will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue will be expanded to include property taxes received by the state; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034). The amendment was intended to stabilize and smooth the state's ability to borrow; gradually reduce the state's long-term debt burden; and lower the share of the operating budget used to pay principal and interest on debt. In some years, the new constitutional limits are anticipated to be more restrictive than the previously approved statutory working debt limits. Principal and interest requirements on the following types of obligations are excluded from the calculation of the constitutional debt limitation: (1) obligations payable from excise taxes levied on motor vehicle fuels, license fees, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles; (2) debt that has been refunded or defeased; (3) debt authorized by law for a single work or object and approved by a majority of those voting in a general or special election; (4) certificates of indebtedness issued to meet temporary deficiencies in the state treasury (described above under "General Obligation Debt Authority"); (5) principal requirements of bond anticipation notes; (6) financing contracts, including certificates of participation therein; (7) obligations issued to pay "current expenses of state government"; (8) obligations payable solely from the revenues derived from the ownership or operation of any particular facility or project; (9) obligations payable solely from gifts, grants, donations, aid or assistance that is limited to expenditure on specific purposes; and (10) any state guarantee of voter-approved general obligation debt of school districts in the state.

Notes to Table 36: Sources of Revenue for Repayment of Debt Issued to Finance Capital Projects

Colorado	In general, Colorado does not really have any financial obligations that are secured exclusively by revenue generated by the capitol project. Colorado doesn't have any General Obligation debt or revenue bonds because of limitations of TABOR. Some of the state's COPs have dedicated revenue streams to pay the annual lease payments - but from an investor/credit standpoint, COPs are a pledge of the State's general fund or other available State revenues, subject to annual appropriation.
Maine	Other—GARVEE is a type of alternative financing that is paid with federal highway transportation funds received.

CHAPTER 4: TABLE NOTES

Debt Management and Capital Financing

Notes to Table 37: Interim Borrowing Instruments used for Capital Purposes

Alabama	The state of Alabama does not typically use short-term financing for capital purposes.
Alaska	Alaska rarely uses interim borrowing instruments.
Colorado	Other—Colorado has two interim borrowing instruments that are organized by Treasury: GTRANS (for the state) and ETRANS (on behalf of school districts). These are issued on an annual basis based on projected cash flow needs.
Georgia	Interim borrowing is not used in Georgia.
Florida	Florida does not use any of the interim borrowing instruments in Table 39.
Montana	N/A.
Nebraska	None.
New Hampshire	Other—Very rarely, New Hampshire does issue BANS.
New Jersey	No interim borrowing instruments are used for capital purposes.
North Dakota	Other—Loans from the Bank of North Dakota.
Rhode Island	BANS have been used in the past, although not in recent years.
South Carolina	While the reported instruments are used, the use of all three of the interim borrowing instruments in Table 39 is rare in South Carolina. Most borrowing is done through bond issuance.
Wisconsin	The state uses commercial paper, but not for interim borrowing purposes.

Notes to Table 38: Alternative Capital Financing Methods

Alabama	Lease-purchase agreements are used at the state level; tax increment financing is used at the local level.
California	Other—California relies on General Obligation bonds and also lease-revenue bonds, which are similar to Certificates of Participation.
Colorado	Other—The state has no GO or revenue bonds outstanding. Colorado does use COPs and lease-purchase agreements for buildings, state fleet vehicles, energy performance contracts, etc. There are no P3 bonds or tax increment financing associated with the State. There are a small handful of small-scale revolving loan funds/development bonds managed by OEDIT and other groups, but they are very minimal in scope.
Delaware	Other—Energy savings bonds.
Minnesota	Other—Appropriation bonds. In Minnesota, TIF is a local government financing tool. The state does not use TIF.
Nevada	Nevada has Water Pollution Control and Safe Drinking Water State Revolving Funds.
New Mexico	The state does allocate private activity bond cap to eligible issuers, and local governments approve Industrial Revenue bonds.
Rhode Island	Rhode Island has been exploring the use of public-private partnerships, but has not entered such an agreement to date.
Tennessee	Other—Some higher education debt is financed from campus sources for capital projects that will generate revenues such as housing fees to help pay debt on dormitories.

CHAPTER 4: TABLE NOTES

Debt Management and Capital Financing

Notes to Table 39: Long-Term Leases

Alabama	Long-term leases are primarily treated as a capital expense for CAFR purposes, although not for bond purposes.
Arkansas	Treatment of leases varies depending upon specifications in contract.
District of Columbia	Except for a limited number of specific leases, DC treats them as operating leases.
Georgia	Long-term leases generally will be reflected in the CAFR as a long-term liability, with the annual lease payments included in the FY operating budget.
Kansas	Agencies that want to sign leases must obtain legislative approval but do not require specific appropriation authority in a bill.
Kentucky	Authorization for real property leases in excess of $200,000 per year must be in the capital budget, but are treated as an operating expense.
Maryland	Leases are treated as a capital expenses if the lease meets accounting definition of capital lease.
Nevada	Long-term leases are treated as operating expenses in the budget. Most long-term leases are capital leases and included in the Consolidated Annual Financial Report (CAFR)'s calculation of long-term liabilities, but are not included in the calculation of the state's debt limit.
New Hampshire	The treatment of leases depends on the criteria applied for accounting purposes. (Useful life of the asset, % of life, etc.)
Ohio	In addition to general obligation debt, Ohio also has special purpose debt which are supported by long-term leases.
Oregon	Long-term leases will be treated as capital expenses if they meet the criteria for such classification in generally accepted accounting principles. Agencies submit capital leasing needs during the budget development process. The legislature approves an overall total for capital leases as "other financing agreements" in the "Bond Authorization Bill". However, capital leases are not approved on an individual project basis by the legislature. Capital leases over $100,000 must be approved by the State Treasurer and DAS Director. Capital leases will be included in calculation of total outstanding debt if material and serviced primarily through a General Fund appropriation.
Pennsylvania	Long-term leases are capitalized in accordance with GASB standards.
Rhode Island	Lease-purchase agreements where the state will ultimately own the asset are treated as capital. Long-term leases that do not result in state ownership are treated as operating
South Carolina	Most leases of buildings do not exceed ten years and are treated as operating expenses. While capital leases are provided for in the definition of what constitutes a state permanent improvement, these effectively are not used in SC because any lease expenditures from capital leases are considered toward the state's debt limit and the General Assembly and State Treasurer have prohibited capital leases or lease purchase agreements because they do count toward the state's debt limit.
South Dakota	The funds to pay for bonds or leases are included in our operating budget.
Texas	If a long-term lease does not meet the definition of a capital lease, the lease is treated as an operating expense. Capital leases are included in the long-term liabilities reported in the Texas Comprehensive Annual Financial Report.
Wisconsin	Leases may be operating or capital. For budgeting purposes, they would be included in the operating budget.