



BUDGET BRIEFING

Report on Key Issues from the
House Appropriations Committee

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

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Frequently Asked Questions About PA's Debt

Pennsylvania recently borrowed more than \$811 million from the bond market. In light of this borrowing, and given the attention focused during the summer on the national debt ceiling, we hope that the information in this document will enhance your understanding of Pennsylvania's debt and borrowing.

Pennsylvania has solid bond ratings and its debt burden is considered low based on the standard metrics used by national bond rating agencies.

Q: Does Pennsylvania borrow or issue bonds to pay for its budget, like the U.S. government?

A: Pennsylvania does not borrow for its operating budget. The state constitution does allow for temporary borrowing within a fiscal year to deal with cash flow issues, since much of the tax revenues are paid later in the fiscal year. These loans, known as tax anticipation notes, must be repaid by the end of the fiscal year, and can only be paid from current year revenues.

Q: What does Pennsylvania do with the money it borrows?

A: The state constitution lays out several purposes for which the commonwealth can incur direct debt, as follows:

1. To suppress insurrection or for disaster relief.
2. To manage cash flow with tax anticipation notes.
3. To refund existing debt.
4. For purposes approved by the voters in referenda.
5. For the approved capital budget.

The majority of the commonwealth's outstanding direct debt is for the capital budget, which is the portion of the state budget that provides for the construction, rehabilitation, renovation and improvement of state-owned facilities, including the acquisition of land and structures. Because these facilities are used over many years, bond financing is used to spread the costs over the life of the asset.

Q: Does Pennsylvania have a debt limit?

A: Yes, for certain kinds of debt. The state constitution limits the amount of capital budget debt that can be incurred to 1.75 times the average annual tax revenues for all funds over the previous five fiscal years. The Auditor General certifies the capital debt limit twice a year, so the current debt ceiling is just over \$58 billion. **Pennsylvania is nowhere close to its constitutional capital debt limit** and could not support the debt service requirements of a debt load near this limit.

The constitution does not place any limits on debt issued for insurrection suppression, disaster relief, or voter-approved purposes. Debt was incurred for disaster relief such as flooding in the 1996 flood, and for voter-approved investments such as Growing Greener and Pennworks for water and sewer projects.

Aside from the constitutional limit on total capital budget debt, the capital budget act for each fiscal year specifies how much new principal can be incurred in that fiscal year for capital projects. **The constitutionally required capital budget has not yet been passed by the Republican-controlled House of Representatives for the current 2011/12 fiscal year.** Last year's capital budget, Act 47 of 2010, remains in effect until the new bill is passed, and limits the maximum principal amount of additional capital budget debt to just over \$1.58 billion.

