

Chapter 6. Indebtedness

Introduction

This edition of the *Classification Manual* contains revisions to the classification system used by the Census Bureau for government debt statistics. The revisions were the result of the 2005 redesign of the government finance statistics program. In keeping with the theme of the 2005 redesign, revisions were made to enhance internal consistency in statistical categories and to simplify the classification categories across levels and types of governments. To meet this objective, the number of categories used to classify state and local government regular debt statistics was reduced from sixty-six to eight, with the former categories combined into broader groupings.

Even though the debt classification categories were simplified, there was no change to the basic concepts and coverage, or to the overall definitions. Rather, the revisions represented a simplification of the classification structure, applied to the manner in which the statistics are presented and reported.

The 2005 changes to the classification system for debt statistics are in sharp contrast to the revisions made to government debt statistics that took effect with the 1988 government finance program. The latter revisions included coverage and conceptual changes to the definition of government debt. Summarized in Section 6.1.6, the 1988 conceptual changes covered how the Census Bureau treated the following debt topics:

- Refunding debt (advanced refunding, defeasance, etc.).
- Public debt for private purposes (industrial revenue bonds, mortgage and housing revenue bonds, and so forth).
- Taxable public debt and related options.

Users should refer to the previous edition of the *Classification Manual* for additional information on the 1988 revisions.

The 2005 redesign did not result in any major shifts in the levels and trends of government debt statistics reported by the Census Bureau. Nor did the 2005 redesign create any need for historical revisions to the time series for government debt statistics. Since the changes in this edition of the *Classification Manual* represent primarily consolidations of debt categories, all aggregates in the historical data are consistent, in terms of coverage and concept, with statistics from earlier years.

6.1 Concepts and Definitions

The Census Bureau concept of government debt is both inclusive and broad in scope. The inclusive nature of the definition refers to the types of debt instruments included in the definition. The broad scope of the definition refers to the range of government activity covered. These concepts are explained in more detail in the following Sections (6.1.1 through 6.1.4).

6.1.1 Definitions – Debt Instruments

Government debt comprises all interest-bearing short-term credit obligations and all long-term credit obligations incurred in the name of the government and all its dependent agencies. This definition

includes all debt, whether backed by the government's full faith and credit or nonguaranteed. It includes tax-exempt as well as taxable public debt.

Government debt also includes judgments, mortgages, "revenue" and "earning" bonds, and special assessment obligations, as well as the more traditional general obligation bonds, notes, and interest-bearing short-term warrants. It includes not only government debt for public improvements (roads, sewers, airports, etc.), but also debt issued for the direct benefit of the private sector entities (industrial development, mortgage revenue, pollution control and abatement, etc.).

6.1.2 Liabilities Outside Census Bureau Definition

The concept of government debt does not cover every type of liability listed on the balance sheets or elsewhere in government finance reports. The following types of liabilities are excluded from Census Bureau statistics:

- Non-interest-bearing short-term obligations, such as accounts payable, non-interest-bearing warrants, and the like. Note, however, that non-interest-bearing long-term obligations having a formal debt instrument (such as a fixed repayment schedule) are classified as government debt.
- Interfund advances, loans, or other obligations transacted between accounting funds of the same government (see Section 3.9 for a discussion of intragovernmental transactions). As a practical matter, these debt statistics do include formal debt instruments of a government that are held as investments by its own agencies or fund on behalf of others.
- Amounts held and owned by a government in a trust or agency capacity on behalf of others (see Section 3.10).
- Contingent loans and advances from other governments, which are classified as intergovernmental transactions (see Section 3.7).
- Rights of individuals to benefits from retirement funds or other social insurance trust systems.
- Unfunded liabilities of retirement systems, unpaid annual or sick leave, or other obligations without a formal debt instrument specifying terms, length, interest rate, etc.
- Leases, including both capital and operating leases (see Section 6.4.5).
- Loan guarantees and nonguaranteed obligations of the Federal Government.

Chart 6.A provides a sample of the most common types of government liabilities that are included and excluded from the Census Bureau's definition of public debt.

Chart 6.A
Examples of Liabilities Included and Excluded from
Census Bureau Definition of Public Debt

This chart is by no means an exhaustive list of all possible liabilities that governments incur; rather, it shows the most common types of debt found in annual finance reports.

Examples of Liabilities Included in Census Bureau Public Debt	Examples of Liabilities Excluded from Census Bureau Public Debt
Bank lines of credit	Accounts payable
Bank loans	Accrued expenses
Bond anticipation notes	Accrued interest payable
Certificates of obligations	Accrued vacation or sick leave
Certificated of participation (COPs)	Contingent loans and advances
Construction loan notes (CLNs)	Defeased debt (from advance refunding operations)
Conduit debt	Deferred compensation payable
“Deep-discount” debt, such as:	Deferred income or revenue
Compound interest bonds (CIBs)	Installment purchase agreements or contracts
Zero-coupon bonds	Interfund loans and advances (“due to other funds”)
Demand bonds	Leases (operating or capital)
General obligation bonds (GOBs)	Long-term contracts payable
General obligation self-supporting bonds	Noninterest-bearing short-term warrants and obligations
General obligation tax increment bonds	Purchase contracts
Grant anticipation notes	Refundable deposits
Industrial revenue bonds	Reverse repurchase agreements
Lease revenue bonds	Rights of persons to benefits from public employee
Lease-rental bonds	retirement or other insurance trust systems,
Limited tax bonds	including health benefits for retirees.
Mortgage notes	Salaries payable
Non-interest-bearing long-term warrants and	Severance payable
obligations with debt instruments	Vouchers payable
Notes payable	
Pollution control bonds	
Revenue anticipation notes	
Serial bonds	
Special assessment bonds	
Special obligation bonds	
Special revenue bonds	
Tax anticipation notes	
Taxable public debt	
Term bonds	

6.1.3 Definitions – Reporting Entity

A second aspect of the Census Bureau definition of government debt is that it covers debt obligations of all dependent agencies of the government, including agencies, boards, commissions, or other organizations (see Chapter 1 for a more comprehensive explanation of dependent agencies). Government business-type activities, particularly utilities, have debt that is payable exclusively from earnings of the facilities which the debt financed. Many special assessment obligations are paid completely from levies on the property benefiting from such improvements, without recourse to the general credit of the government. State authorities, educational institutions, and other agencies frequently have debt secured only by their own revenues, other dedicated receipts, or agency properties. These types of obligations are issued widely by dependent agencies of a government, such as special improvement districts of city corporations, state dormitory authorities, or housing finance agencies.

The Census Bureau has been consistent in using this broad coverage and including debt of dependent agencies, going back to the development of the Census of Governments program in 1952. This was true even though the parent governments often did not maintain central accounts of such agency debt.

The Census Bureau assigns debt, as defined above, to the government in whose name it is incurred, regardless of the location of responsibility for debt service. In the case of public debt for private purposes, this generally represents the government whose tax-exempt status was used to issue such debt. State obligations for which interest and principal payments are financed by local government payments to the state are treated as state debt. Similarly, debt of an agency classified as dependent on a local government is treated as local government debt.

6.1.4 Census Bureau Reporting and the Governmental Accounting Standards Board

The Governmental Accounting Standards Board (GASB) was established in 1984. Its purpose is to develop and maintain standards of financial accounting and reporting for state and local governments in the United States. The Census Bureau and GASB have nearly identical approaches to defining coverage for debt statistics that should be reported on behalf of the parent government. The following hierarchy shows the GASB terminology as it relates to parent government and dependent agency debt activity that is included in a government's debt statistics for Census Bureau purposes.¹

- *Parent Government (including major permanent funds within each category below)
 - *General Fund
 - *Special Revenue Funds
 - *Capital Projects Funds
 - *Debt Service Funds
- *Proprietary Funds
 - *Enterprise Funds
 - Internal Service Funds
- *Component Units
 - *Blended Component Units
 - *Discrete Presented Component Units (including major and non-major units)
- Fiduciary Funds

¹ Users should refer to GASB 39 and to Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards for more detailed information.

Pension and Other Employee Benefit Trust Funds
Investment Trust Funds
Private Purpose Trust Funds
Agency Funds

In the above listing, those reporting funds noted with an asterisk (*) often have government debt that could be in-scope for Census Bureau reporting purposes. However, each dependent agency or activity of what the Census Bureau considers to be the parent government (GASB primary government, usually) must fall within the definitions outlined in Chapter 1. In the above listing, for example, it is possible that some Internal Service Funds could reflect activity that should be included in the Census Bureau debt statistics.

The Census Bureau continues to monitor and analyze GASB statements for relevance to Census Bureau reporting and for purposes of developing relational classifications.

6.1.5 Three Way Classification of Public Debt

For Census Bureau statistics, government debt is classified into three categories using a 3-digit coding scheme. The first category applies to short and long-term debt, while the second and third categories apply only to long-term debt. Below is a summary of each:

- *By length of term.* Debt is classified as being either short or long-term. Note that for short-term debt, only the amounts outstanding at the beginning and end of the fiscal year are reported. Unlike long-term debt data, no effort is made to collect the entire amount of short-term debt sold and paid off during the fiscal year or to categorize short-term debt by function.
- *By type of long-term debt.* Long-term debt is classified by one of four types: outstanding at the beginning of the fiscal year, issued during the fiscal year, retired during the fiscal year, or outstanding at the end of the fiscal year. Note that two types record debt activity over a period of time, while two measure debt at a specific point. Also, the end of fiscal year refers to the government's own fiscal year, not the Census Bureau reporting period.
- *By purpose of long-term debt.* Long-term debt is classified according to the purpose for funding. There are currently two categories:

Public Debt For Private Purposes
Public Debt, Unspecified Public Purposes

6.1.6 Classification Changes Effective With 2005 Survey Year

The Census Bureau made two changes to the classification system for government debt statistics that was in place from 1988 through 2004. First, the number of categories used in classifying the "purpose" of state and local government long-term debt (the functional activity the debt supported) was reduced from 8 to 2. The pre-2005 statistical classifications are referenced in Table 6.2. To summarize, the previous categories utilized the basic concept of "government sectors" described in Chapter 2, in combination with the functional concepts used for government expenditure statistics:

General Debt: Elementary and Secondary Education
Higher and Other Education
Public Debt for Private Purposes
All Other Debt, N.E.C.

Utility Debt: Water Supply Systems
Electric Power Systems
Natural Gas Supply Systems
Public Mass Transit Systems

The second classification change effective with 2005 debt statistics was that the distinct categories used to classify “character” of long-term debt were eliminated. Prior to the 2005 survey year, the Census Bureau statistics on government debt also included the following additional classification category:

- *By character of long-term debt.* Long-term debt is classified as either guaranteed (backed by the full-faith and credit of the government) or as nonguaranteed (such as revenue bonds).

Census Bureau statistics no longer distinguish between debt that was “guaranteed” and “nonguaranteed.” This change meant that the Census Bureau statistics on government debt went from a four way classification system to a three way classification system.

Table 6.2 contains a historical crosswalk of the various classification categories in use for the following historical time frames:

Current surveys (effective with the 2005 redesign)
1988 to 2004
1987 and earlier

The table shows where each historical debt category is contained in the current Census Bureau classification structure.

6.2 Measurement Issues for Debt Statistics

This section notes several important concepts related to the measurement of debt in the Census Bureau’s statistical system. Some of these concepts were explained earlier in Chapters 1, 2, and 3, but are reiterated here.

6.2.1 Measurement Issues: Timing

Debt statistics represent a mix of transactions made during the fiscal year and amounts measured as of specific points in the fiscal year. For short-term debt, statistics reflect amounts at the beginning and end of the government fiscal year only. There are no statistics on short-term debt issued or retired. As a result, if a government issues short-term debt during the fiscal year and retires it prior to the end of the fiscal year, the transactions are excluded completely from Census Bureau statistics.

For long-term debt, all transactions are included in the statistics. Debt outstanding is measured at the beginning and at the close of the fiscal year. In addition, all debt issued and retired transactions are measured, regardless of when they occurred during the fiscal year.

In cases where a dependent agency of a government has a fiscal year that differs from the parent government, debt for the dependent agency are combined with that of the parent, even though they represent different time frames. Similarly, when debt statistics are tabulated for more than one government, the fiscal year differences are ignored. All data are summed as if they covered the same time periods, without any adjustments.

The treatment of fiscal years and the definition applied by the Census Bureau were explained in Section 3.2.

6.2.2 Measurement Issues: Valuation

All statistics are reported or compiled in current dollars only. The Census Bureau makes no effort to account for historical price level changes in its statistical program on government finances. This is because of the diversity of users, and uses for, the data. By reporting only in current dollar values, the Census Bureau recognizes the various needs and special circumstances of its data users and does not introduce any statistical bias to the time series.

The primary implication for statistics on debt is that the amounts outstanding reflect the value when issued, less current and prior year retirements. Long-term debt carried for lengthy periods of time, such as 20 years, thus was valued at the time it was issued and is not adjusted for price level changes.

6.2.3 Measurement Issues: Aggregation and Tabulation

Aggregate statistics for an individual government reflect the debt of the parent government and all of its dependent agencies. There are no issues involving flows of funds between or among these entities and their accounting funds, since by definition a government cannot borrow from itself. The basic concept of total debt for an individual government thus represents all monies owed to entities outside of the defined government.

Tabulated statistics on debt for multiple governments reflect the debt measured for all fiscal years of the governments being summed. Since these fiscal years differ, total statistics (such as for all local governments in a state, or all townships nationally) reflect a mix of fiscal periods. The Census Bureau makes no effort to adjust aggregates so that they represent a standard time period, at least for annual surveys.

6.3 Statistical Classification Categories for Debt

The following pages contain the classification categories and their definitions for statistics on government debt, as currently in use by the Census Bureau. These categories, consisting of fifteen variables, became effective with the 2005 survey of state and local government finances. Ten of the variables apply to state and local governments, while five apply to Federal Government statistics.

The pages contain all of the debt statistics categories – regular, exhibit, and derived. There are no descriptive statistics for debt (See Chapter 2 for an explanation of these types within the Census Bureau’s statistical program). Each category is defined and explained, with examples provided where appropriate. The categories for regular statistics are presented in terms of the three way classification currently in use by the Census Bureau:

By Length of Term Outstanding:

- Short-Term
- Long-term

By Type:

- Beginning
- Issued
- Retired
- Outstanding

By Purpose:

- Public Debt For Private Purposes
- Public Debt, Unspecified Public Purposes

The categories for exhibit statistics are part of the official Census Bureau classification system. As such, these statistics are assigned to specific government units, as applicable, and can be used in aggregate statistics by level and type of government. There are two exhibit debt statistics in use in the current Census Bureau program on government finance statistics, both applicable only to state governments.

The categories for derived debt statistics are calculated using regular Census Bureau debt statistics. However, they are not intended to represent accounting identities that can be used to measure a government's (or governments') financial position. Some of these also use data gathered on cash and security holdings. Note that there are no census codes associated with these types of statistics. There are four derived debt statistics in use in the current Census Bureau program on government finance statistics.

GOVERNMENT DEBT CATEGORIES

SHORT-TERM DEBT – State and Local Government Statistics

Definition: Interest-bearing debt payable one year or less from its date of issue. Includes obligations having no fixed maturity date (even where outstanding for more than one year if payable from a tax levied for collection in the same year it was issued).

Includes: Bond anticipation notes, tax anticipation notes and warrants, bank loans, tax-exempt commercial paper, interest-bearing short-term warrants and obligations, and revenue anticipation notes (RANS).

Excludes: Accounts payable, non-interest-bearing warrants and obligations, interfund loans (non-liabilities), and long-term debt payable within the current fiscal year (report at *Long-term Debt*).

Applicable Classification Codes:

61V – Short-Term Debt Outstanding, Beginning Of Fiscal Year

64V – Short-Term Debt Outstanding, End Of Fiscal Year

Special Considerations:

1. Short-Term debt is not further classified beyond the first category of “length of term,” in contrast to long-term debt.
2. Short-term debt is measured at two points in time for each government – start of fiscal year and end of fiscal year. Short-Term debt issued and retired during the year thus are not recorded in Census Bureau debt statistics for governments.
3. This category does not apply to statistics on Federal Government debt.

Applicability By Level and Type of Government

Federal	State	Local
No	Yes	Yes – All Types

GOVERNMENT DEBT CATEGORIES

LONG-TERM DEBT – State and Local Government Statistics

Definition: Debt payable more than one year from its date of issue, including those redeemable in less time under a “daily put option” (option tender bonds).

Includes: General obligation bonds (GOB), term bonds, serial bonds, revenue bonds, industrial revenue bonds, pollution control bonds, special assessment bonds, certificates of participation (COPs), zero coupon or compound interest bonds, judgments, mortgages, and construction loan notes (CLNs).

Excludes: Leases (operating or capital), interfund loans (except own securities held as investments by other funds, such as employee retirement systems), amounts owed in an agency or trust capacity (e.g., employee tax withholdings), interest payable, advances and contingent loans from other governments, unfunded obligations of employee pension funds, accrued vacation or sick leave, and rights of individuals to benefits from insurance trust systems.

Examples: Public Debt for Private Purposes – often referred to as “conduit debt” in Comprehensive Annual Financial Reports of governments.

Special Consideration:

Treat tax anticipation warrants or notes outstanding for more than one year as short-term debt if they are payable from a specific tax levied for collection in same year debt was issued.

Applicable Classification Codes

- 19T** Beginning Long-term Debt Outstanding, Public Debt For Private Purposes
- 19U** Beginning Long-term Debt Outstanding, Unspecified Public Purposes

- 24T** Long-term Debt Issued, Public Debt For Private Purposes
- 29U** Long-term Debt Issued, Unspecified Public Purposes

- 34T** Long-term Debt Retired, Public Debt For Private Purposes
- 39U** Long-term Debt Retired, Unspecified Public Purposes

- 44T** Long-term Debt Outstanding, End Of Fiscal Year, Public Debt For Private Purposes
- 49U** Long-term Debt Outstanding, End Of Fiscal Year, Unspecified Public Purposes

Applicability By Level and Type of Government

Federal	State	Local
No	Yes	Yes – All Types

GOVERNMENT DEBT CATEGORIES

LONG-TERM DEBT – Federal Government Statistics

Definition: All debt, regardless of length of term, of the parent government, all its agencies and trust funds, and all Federally-backed organizations (as defined by the Census Bureau for statistical purposes).

Includes: See specific descriptions below.

Excludes: Debt of associated international agencies, such as the International Monetary Fund.

Special Considerations:

1. Debt statistics collected for the Federal Government are limited to several outstanding codes that neither distinguish between short- and long-term nor indicate functional use.
2. These debt classification codes apply only to Federal Government statistics.
3. Note the overlap in these debt codes: total debt outstanding is equal to both the sum of 41V plus 41Y and the sum of 41Q plus 41W.

Applicable Classification Codes:

- 41I** Increase in debt during the fiscal year (debt outstanding at end of current fiscal year minus debt outstanding at end of prior fiscal year).
- 41V** Debt held by Federal Government accounts, primarily Federal insurance trust funds (e.g., Social Security, Medicare, as well as Military and Civil Service retirement trusts, including Federal Employee Retirement System).
- 41Y** Debt held by persons and organizations outside the Federal Government (including Federal Reserve Banks holdings of Federal securities purchased for monetary policy reasons).
- 41Q** Debt obligations of the U.S. Treasury, including short-term notes and Treasury borrowing on behalf of the Federal Financing Bank.
- 41W** Debt obligations of Federal agencies, such as the Federal Savings and Loan Insurance Corporation (FSLIC), Federal Housing Administration (FHA), Federal Deposit Insurance Corporation (FDIC), Postal Service, and Tennessee Valley Authority (TVA). Excludes agency borrowing from the Federal Financing Bank and debt of government-sponsored enterprises (e.g., Federal National Mortgage Association, Federal Housing Finance Board, and Farm Credit Administration).

Applicability By Level and Type of Government

Federal	State	Local
Yes	No	No – All Types

GOVERNMENT DEBT CATEGORIES

LONG-TERM DEBT: EXHIBIT STATISTICS ON REFUNDING DEBT

Definition: The issuance of long-term obligations in exchange for, or to finance the retirement of, existing long-term debt.

Includes: Regular refunding and advance refunding (see Section 6.4.2).

Excludes: Short-Term debt issued as a temporary measure to pay off existing long-term debt service.

Applicable Classification Codes:

- 52T** Long-term Refunding Bonds Issued During The Fiscal Year
- 53T** Long-term Debt Retired By Refunding During The Fiscal Year

Special Considerations:

1. These classifications were first used in the 1979 survey year.
2. Prior to 2005, these codes applied to selected, large local governments.
3. Prior to 2005, the Census Bureau used two additional exhibit codes for cash and securities (assets) that were related to debt statistics. These were 71W (offsets to full-faith and credit long-term debt) and 74W (offsets to nonguaranteed long-term debt). These codes were used for state and large local governments.

Applicability By Level and Type of Government

Federal	State	Local
No	Yes	No – All Types

GOVERNMENT DEBT CATEGORIES

DERIVED DEBT STATISTICS – BORROWING

Definition: *Borrowing* is an estimate of the net amount of new money that a government has borrowed during the fiscal year, including short- and long-term debt. It consists of the par value of long-term debt issued during the year (other than for refunding purposes) plus any net increase in short-term debt between the beginning and end of the fiscal year. Note that it does not reflect the total amount of short-term debt sold during the year.

Calculation: Shown as a formula using Census Bureau 3-digit debt codes, borrowing is computed as follows (the asterisk (*) in the formulas below stands for the appropriate function code for the debt issued or retired):

If net short-term debt has **increased** during the fiscal year:

$$\text{Current classification system} = 24T + 29U + (64V - 61V) - 52T$$

$$\text{Pre 2005 classification system} = 21^* + 24^* + 29^* + (64V - 61V) - 52T$$

If net short-term debt has **decreased** (or remained constant) during the fiscal year:

$$\text{Current classification system} = 24T + 29U - 52T$$

$$\text{Pre 2005 classification system} = 21^* + 24^* + 29^* - 52T$$

Special Consideration:

When calculated, these statistics apply only to state governments and their aggregates. There is no applicability to Federal Government statistics.

GOVERNMENT DEBT CATEGORIES

DERIVED DEBT STATISTICS – REDEMPTION

Definition: *Redemption* is an estimate of the net amount of debt that a government has paid off during the fiscal year, including short- and long-term debt. It consists of the par value of long-term debt retired during the year (other than debt retired by refunding) minus any net decrease in short-term debt between the beginning and end of the fiscal year.

Calculation: Shown as a formula using Census Bureau 3-digit debt codes, redemption is computed as follows:

If net short-term debt has **increased** during the fiscal year:

Current classification system = $34T + 39U - 53T$

Pre 2005 classification system = $31^* + 34^* + 39^* - 53T$

If net short-term debt has **decreased** (or remained constant) during the fiscal year:

Current classification system = $34T + 39U + (64V - 61V) - 53T$

Pre 2005 classification system = $31^* + 34^* + 39^* + (64V - 61V) - 53T$

Special Considerations:

1. Redemption does not reflect the total amount of short-term debt paid off during the year.
2. Note that debt redemption includes debt redeemed not only from current revenue or prior year fund balances but also from the sale of assets accumulated in debt service funds (sinking funds). The transfer of current revenue to such funds for future debt service is considered an intragovernmental transaction and, therefore, is not included in either revenue or expenditure statistics.
3. When calculated, these statistics apply only to state governments, and their aggregates. There is no applicability to Federal Government statistics.

GOVERNMENT DEBT CATEGORIES

DERIVED DEBT STATISTICS – CHANGE IN DEBT

Definition: Change in debt is an estimate of the net change in a government's indebtedness during the fiscal year. It consists of the par value of long-term debt issued during the fiscal year less the par value of long-term debt retired during the year plus (or minus) the change in short-term debt between the beginning and end of the fiscal year.

Calculation: Shown as a formula using Census Bureau 3-digit debt codes, change in debt is computed as follows:

$$\text{Current classification system} = 24T + 29U - 34T - 39U + (64V - 61V)$$

$$\text{Pre 2005 classification system} = 21^* + 24^* + 29^* - 31^* - 34^* - 39^* + (64V - 61V)$$

Special Considerations:

1. When calculated, these statistics apply only to state and local governments, and their aggregates. There is no applicability to Federal Government statistics.
2. "Change in debt" does not reflect the total amount of short-term debt sold or paid off during the year.

GOVERNMENT DEBT CATEGORIES

DERIVED DEBT STATISTICS – NET LONG-TERM DEBT OUTSTANDING

Definition: The amount of long-term debt held by a government for which no funds have been set aside for its repayment. It consists of total long-term debt outstanding less total offsets to debt (i.e. cash and security holdings in debt service or sinking funds).

Calculation: Shown as a formula using Census Bureau 3-digit debt codes, net long-term debt outstanding is computed as follows:

Current classification system = 44T +49U –W01

Pre 2005 classification system = 41* + 44* – W01

Special considerations:

1. When calculated, these statistics apply only to state and local governments, and their aggregates. There is no applicability to Federal Government statistics.
2. W01 is not a debt code, but rather a code used in the statistics for *Cash and Security Holdings – Offsets to Debt*. See Chapter 7.

6.4 Topical Issues Related to Statistics on Government Debt

The following sections contain additional explanations of some of the conceptual issues pertaining to how the Census Bureau covers government debt in its government finance statistical program.

6.4.1 Public Debt for Private Purposes

This functional debt category, first used in the fiscal year 1988 survey, represents a consolidation of two former categories plus certain debt from others. It now represents one of the largest categories of state and local government debt outstanding.

Public debt for private purposes comprises credit obligations of a government or any of its dependent agencies for the purpose of funding private sector activities,² including debt that is backed solely by the private organization(s) whose activity is being financed. Government accountants often refer to this as Conduit Debt in official records, such as CAFRs. The Census Bureau assigns this debt to the government whose bond-issuing authority was used to secure its tax-exempt status or, in the case of taxable debt, was used for its issuance. Examples of private sector activities funded include:

- Industrial and commercial development
- Pollution control and abatement
- Housing and mortgage loans
- Private hospital facilities
- Student loans
- Private ventures such as sports stadiums, convention centers, and shopping malls.

Historically, this type of debt has presented certain data collection problems for the Census Bureau. Often, it was not listed in the financial statements of the issuing government. In these cases, Census analysts relied on secondary sources to “discover” such debt. Even where its issuance was identifiable, its retirement schedule, interest payments, and amounts outstanding were often unavailable. This often required the Bureau to estimate the statistics. The governments’ themselves often did not construe such debt to be their own and objected to its being included in Census Bureau statistics about their finances. One of the objections government officials had was that this debt could distort the presentation of data, such as its effect on per capita debt when a small government issues a large amount of public debt for private purposes.

In recent years, however, GASB rules have addressed government reporting of public debt for private purposes. Statistics on such debt are now much more readily available in government fiscal reports, such as their CAFR’s. The Census Bureau continues to include this debt as in-scope in terms of coverage for its statistical program on government finances.

²Users should note that this statistical category is broader than the “private activity bonds” that are regulated by such Federal laws such as the Tax Reform Act of 1984, which excludes such debt as private multi-family rental housing and mortgage subsidy bonds that are included in the Census Bureau category.

Public debt for private purposes also generates special treatment regarding its related revenue, expenditure, and even cash and security holdings. This treatment was revised for the fiscal year 1988 survey to cover all types of similar debt. Previously, it was limited to mortgage revenue debt (the old “W” code debt in Table 6.2).

- Revenue: An amount equal to the interest expenditure (*Interest on General Debt*, code I89) on all public debt for private purposes is classified as *Interest Earnings*, code U20.
- Expenditure: Unlike all other forms of debt issued, no expenditures from the proceeds of public debt for private purposes are reported. The actual (or estimated) interest payments on such debt are classified as *Interest on General Debt*, code I89.
- Cash and Security Holdings: An amount equal to the public debt for private purposes outstanding at the end of the fiscal year is classified as an *Offset to Debt* (code W01). This figure is revised annually to account for amounts retired or issued.

6.4.2 Refunding of Long-Term Debt

Governments often retire debt before it matures by issuing more debt at a lower interest rate, yielding savings in the form of lower debt service costs. A variation of this type of transaction is “advance refunding,” where a government issues new debt but sets aside the proceeds rather than actually paying off the old debt. The old debt, in turn, is “defeased” and removed from the government’s accounting statement. The next two sections describe how this transaction is classified in Census Bureau statistics.

6.4.2.1 Regular Refunding

Regular (or direct) refunding refers to the issuance of long-term obligations in exchange for, or to finance the retirement of, existing long-term debt, typically on or after the first call date of the debt to be refunded. This rather straightforward transaction is classified for Census Bureau statistics as described below:

- *Refunding debt issued*: The par value of debt issued during the fiscal year is reported twice: (1) under regular *Debt Issued*, codes 24T or 29U, and (2) under *Refunding Debt Issued*, code 52T, the exhibit code. (Note that the “T” in code 52T does not refer to public debt for private purposes.) Any amounts authorized but not actually issued are excluded.
- *Debt retired by refunding*: The par value of debt retired by refunding during the fiscal year is reported twice: (1) under regular *Debt Retired*, codes 34T or 39U, and (2) under the exhibit code *Refunding Debt Retired*, code 53T.
- *Refunding debt outstanding*: The par value of debt outstanding that was issued for refunding purposes is reported under regular *Debt Outstanding*, codes 44T or 49U. The debt that has been retired by the refunding bonds is excluded.

6.4.2.2 Advance Refunding

A more complex situation occurs when a government issues refunding debt but cannot legally retire the old debt under the terms of the original debt issuance. Typically the original debt's "first call" date, usually a term of 10 years, has not yet been reached. "Advance refunding" generally occurs when interest rates are falling dramatically. In these cases, the government places the proceeds of the refunding bonds in escrow. The proceeds must include enough monies to cover the debt service (principal and interest) until the original debt's first call date is reached, at which time the funds in escrow are used to retire the original debt's remaining balance.

The government generally has two choices on treating the refunded debt. One, if the refunding debt issued is sufficient to pay the remaining principal and all future interest on the original debt, then the government can remove the original debt from its balance sheet, an action called defeasance. For purposes of Census Bureau statistics, the debt is defeased whether or not the government is released from its legal obligation for the debt (legal defeasance) or remains the primary obligor (in-substance defeasance).

Two, the government may use the escrow funds to pay the interest and principle due on the refunding debt until a certain date is reached, at which time the escrowed money is used to retire the original debt, which is then defeased. This type of advance refunding is called "crossover" refunding.

This classification structure and subsequent treatment was adopted first with fiscal year 1979 data. At that time, the Census Bureau made a one-time adjustment of -\$5.6 billion to state and local government long-term debt outstanding for that year to accomplish the revision. The negative adjustment reflected the fact that debt that was defeased had to be removed from the statistical measure in accordance with the Census Bureau's new definition.

6.4.3 Zero-Coupon and Other Deep Discount Bonds

Deep discount bonds and their equivalents (zero-coupon bonds, compound interest bonds, etc.) are debt instruments sold at a price much below their face value. The interest they earn is added to the value of the bond rather than paid out serially (similar to how U. S. savings bonds work). Stated formally, interest is reinvested, compounded at the original rate that applied to principal, and paid at maturity.

For Census Bureau statistics, deep discount debt transactions are reported as follows:

Debt issued: Only the actual proceeds from the sale of the bonds are reported as long-term debt issued (i.e., not the higher face value amount).

Debt retired: When the bonds are finally paid off, only the original sale price is reported as long-term debt retired (i.e., not the higher face value which includes accumulated interest). Thus, the amount retired is equal to the amount originally reported as issued.

Debt outstanding: The amount of proceeds from the original sale of the bonds is reported as long-term debt outstanding (i.e., the outstanding amount is not incremented by the interest earned and added to its face value). Thus, the amount outstanding remains constant during the life of the bond.

Interest expenditure: The amount of interest earned by the bond and added to its face value is reported as interest expenditure (even if it does not involve actual cash disbursements).

6.4.4 Bond Banks and Pooled Debt

Governments sometimes issue debt jointly rather than individually, to reduce the cost of issuing debt and to achieve a lower interest rate. For instance, a state government may create a “bond bank” that issues debt in the state's name, with the proceeds then used to purchase securities from local governments. All of the state debt is “U” debt since the debt is for public purposes (borrowing by local governments in the state). Local governments also can create their own bond banks or enter into “pooled debt” arrangements where one member issues debt and others borrow from the proceeds.

For Census Bureau statistics, these debt transactions are reported as follows:

Debt issued, retired, and outstanding: The government in whose name the bond bank or pooled debt was issued is recorded with the amount issued, retired, and outstanding using regular census debt codes.

Loaning of proceeds to other governments: The distribution of the proceeds from the bond bank or pooled debt is not reported as an intergovernmental transaction. Instead, for the government issuing such debt, the purchase of another government’s securities or the borrowing of debt proceeds by other governments is reported as an investment under *Offsets to Debt*, code W01. For the governments whose securities are sold or which borrows the proceeds, it is treated as a *Long-Term Debt Issued*, codes 24T or 29U.

Repayment of proceeds: When the member government repays part or all of the loan from the issuing government, it is reported as long-term debt retired by the former. For the issuing government, the amount repaid each year reduces the security holding for *Offsets to Debt*, code W01.

Interest on debt: For the issuing government, the interest paid on the debt is reported under the appropriate *Interest Expenditure* category (I89, I91, I92, I93, or I94). For the member governments, it is treated as in intergovernmental expenditure (and for the issuing government as intergovernmental revenue).

Note that in some cases, the original debt is issued by a non-public entity (such as a league of cities) that operates more like the joint activities described in Section 1.5. In these cases, the debt and its related transactions are assigned to the member governments and reported as regular long-term debt.

An example of a bond bank is the Indiana Bond Bank. The state issues bonds or otherwise allocates funds for the express purpose of creating a pool of money from which local governments can borrow. The resulting financial transactions are reported as indicated above, for the state and the participating local governments.

6.4.5 Leases and Lease-Purchase Agreements

For Census Bureau statistics, leases, lease-purchase arrangements, lease-rental agreements, and the

like are not considered public debt.³ Instead, payments on them are reported as capital outlay (see Section 3.11.2 for details).

A government may enter into a leasing arrangement with a private firm in lieu of issuing debt and building their own facilities. The private firm obtains funding for the project, builds it, and leases the facility or equipment back to the government. For the government, leases offer the advantages of not requiring voter approval and are not counted toward its debt limitation ceiling.

Note that Census Bureau debt categories do include lease-rental bonds issued by a dependent agency of a government that builds a facility, which it leases back to the parent government. These lease payments would not be reported since they represent intragovernmental transfers.

6.4.6 Taxable Public Debt

Most government debt is tax-exempt. The interest paid to bondholders is exempt from Federal income taxes. In some cases, however, a government will issue taxable debt, where the interest paid to bondholders is not exempt from Federal taxation. Although relatively uncommon, governments might issue debt that does not receive exemption from Federal taxes to bypass debt limitations imposed on the issuing government. For Census Bureau statistics, taxable public debt is reported in the same manner as tax-exempt public debt.

6.4.7 Special Topics: Debt Statistics and the Four Sectors of Government

Previous versions of this *Classification Manual* contained separate classification categories for utilities sector debt and general government sector debt, as noted previously. However, the Census Bureau classification system never has had separate debt categories for all four sectors of government as described in Chapter 2 – general, utilities, social insurance trusts, and liquor stores.

For social insurance trusts, any debt would be issued by the parent government, thereby making it part of the general sector. For public employee retirement systems, the Census Bureau does not classify (measure) unfunded liabilities, so that this aspect of retirement system finances is not included in the debt statistics. Where “borrowing” occurs for purposes of unemployment compensation systems, in the form of funding extended benefits, such transactions are treated as revenue (positive or negative). See Chapters 8 and 9 for additional information.

Debt would be very rare for liquor stores. If there is any debt issued, it is the responsibility of the parent government. Again, this falls into the general government sector.

6.5 Tables

Table 6.1 shows which debt categories (codes) are applicable by level and type of government, effective with the 2005 survey year. Table 6.2 shows the current codes in use for Census Bureau statistics on

³Leases are not classified as debt for Census Bureau purposes for various reasons. Unlike bonded debt, leases rarely generate any cash flow. With no proceeds available, there are no funds to expend on capital outlays or to turn over to the private sector in return for an investment security. Moreover, leases are rarely negotiable instruments, do not require voter approval or apply to debt ceiling limits, are funded by annual appropriations rather than dedicated taxes or other revenue sources (in effect, making them renewable one-year contracts), can be canceled in some cases, and often have an “interest” component that is simply an imputed amount. Thus, for Census Bureau statistics, leases are closer to the “pay-as-you-go” way of financing capital improvements than to debt.

government debt, along with the equivalent codes from previous versions of the Census Bureau classification system. It can be used to develop comparative aggregates of time series data.

**Table 6.1
Applicability of Debt Categories and Codes**

Category	Code	Federal	State	Local Governments – By Type				
				County	Municipal	Township	Special District	School District
Short-Term Beginning	61V	X	Valid	Valid	Valid	Valid	Valid	Valid
Short-Term Ending	64V	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Beginning – Private Purposes	19T	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Beginning – Unspecified Public Purposes	19U	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Issued – Private Purposes	24T	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Issued – Unspecified Public Purposes	29U	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Retired – Private Purposes	34T	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Retired – Unspecified Public Purposes	39U	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Outstanding – Private Purposes	44T	X	Valid	Valid	Valid	Valid	Valid	Valid
Long-term Outstanding – Unspecified Public Purposes	49U	X	Valid	Valid	Valid	Valid	Valid	Valid
Exhibit: Refunding Debt Issued	52T	X	Valid	X	X	X	X	X
Exhibit: Debt Retired by Refunding	53T	X	Valid	X	X	X	X	X
Federal – Increase in Debt	41I	Valid	X	X	X	X	X	X
Federal – Debt Held by Federal Accounts	41V	Valid	X	X	X	X	X	X
Federal – Debt Held by Outside Persons/Agencies	41Y	Valid	X	X	X	X	X	X
Federal – Debt Obligations of US Treasury	41Q	Valid	X	X	X	X	X	X
Federal – Debt Obligations of Federal Agencies	41W	Valid	X	X	X	X	X	X

Key:

X Not a valid code for the level or type of government indicated (there are no statistics).

Valid Code is applicable for the level or type of government indicated (statistics are collected and reported).

Table 6.2 Historical Crosswalk: State and Local Debt Classification Categories – page 1 of 2

General Description of Debt Category	Current Codes (effective 2005)	Equivalent Codes From 1988 to 2004	Equivalent Codes Pre-1988
STATE AND LOCAL SHORT-TERM DEBT:			
Short-Term, Beginning	61V	61V	61V
Short-Term, Ending	64V	64V	64V
STATE AND LOCAL LONG-TERM DEBT – BY TYPE:			
LT Begin, Public Debt for Private Purposes	19T	19T	19T, 19W
LT Begin, Unspecified Public Purposes	19U	19*	19*
LT Issued, Public Debt for Private Purposes	24T	24T	24T, 24W
LT Issued, Unspecified Public Purposes	29U	21*, 24*, 29*	21*, 22*, 23*, 24*, 29*
FFC Issued	None	21*	21*
FFC Issued, General Obligation	None	None	22*
FFC Issued, Nontax	None	None	23*
NG Issued	None	24*	24*
Unspecified Issued	None	29*	29*
LT Debt Retired, Public Debt for Private Purposes	34T	34T	34T, 34W
LT Debt Retired, Unspecified Public Purposes	39U	31*, 34*, 39*	31*, 32*, 33*, 34*, 39*
FFC Retired	None	31*	31*
FFC Retired, General Obligation	None	None	32*
FFC Retired, Nontax	None	None	33*
NG Retired	None	34*	34*
Unspecified Type, Retired	None	39*	39*
LT Outstanding, Public Debt for Private Purposes	44T	44T	44T, 44W
LT Outstanding, Unspecified Public Purposes	49U	41*, 44*	41*, 42*, 43*, 44*
FFC Outstanding	None	41*	41*
FFC Outstanding, General Obligation	None	None	42*
FFC Outstanding, Nontax	None	None	43*
NG Outstanding	None	44*	44*

Table 6.2 Historical Crosswalk: State and Local Debt Classification Categories – page 2 of 2

General Description of Debt Category	Current Codes (effective 2005)	Equivalent Codes From 1988 to 2004	Equivalent Codes Pre-1988
STATE AND LOCAL LONG-TERM DEBT – BY PURPOSE:			
Public Debt for Private Purposes	**T	**T	**T, **W
Public Debt, Unspecified Public Purposes	**U	**A, **B, **C, **D, **F, **G, **H, **X	**A, **B, **C, **D, **E, **F, **G, **H, **J, **K, **L, **M, **N, **P, **R, **S, **T, **W, **X
Water Utilities	None	**A	**A
Electric Utilities	None	**B	**B
Gas Utilities	None	**C	**C
Transit Utilities	None	**D	**D
El-Sec Education	None	**F	**F
Higher Education	None	**G	**G
Other Education	None	**H	**H
Not Elsewhere Classified	None	**X	**X
Airports	None	None	**E
Hospitals	None	None	**J
Regular Highways	None	None	**K
Toll Highways	None	None	**L
Housing and Community Development	None	None	**M
Parks and Recreation	None	None	**N
Sewerage	None	None	**P
Veterans' bonuses	None	None	**R
Sea and Inland Port Facilities	None	None	**S
Industrial Development and Pollution Control	None	None	**T
Mortgage Revenue	None	None	**W

Abbreviations:

LT = Long-term

FFC = Full faith and credit (guaranteed debt)

Nontax = Guaranteed debt, but pledged initially from nontax revenue

General Obligation = Guaranteed debt, pledged from taxing authority

El-Sec = Elementary and Secondary Education