

HOW MUCH DEBT SHOULD WE GET?

The above title is inspired by *What Pet Should I Get?* by Dr. Seuss, a favorite quarantine book of my toddler. The book traces the decision making of two children after receiving the authorization to purchase a pet. Much of the narrative revolves around a fundamental constraint of scarcity as the children explore the pet shop knowing they can only pick one pet despite many options. In the end, the children choose a pet that is shown in a covered basket and unknown to the reader.

The story serves as a fitting synopsis of both how communities approach debt capacity and the way that the personal and professional have become indistinguishable seven months into the pandemic.

The scarcity explored in the story is the key element behind the many inquiries the Bond Bank receives about the amount of overall debt that is appropriate for towns, school districts, and other units of government.

This complicated but essential question boils down to a few considerations for communities:

- What amount of debt service can be incurred while maintaining an affordable tax burden or other municipal fee structure?
- What amount of debt is appropriate before crowding out other important areas of community spending?
- What amount of debt will lenders provide, and at what cost?

These questions inform the related concepts of debt affordability and debt capacity. In addition to statutory considerations, these concepts drive a local government's analysis of how much debt to incur as part of capital planning efforts.

The answers to the first of these questions is perhaps the most perplexing as it can represent the values of a

community as well as their position next to financial benchmarks derived from peer communities.

The Bond Bank recently released our 2020 Vermont Debt Medians, which we will publish annually going forward. These medians provide a starting place within a larger capital and debt planning analysis to measure overall debt affordability. The Government Finance Officers Association (GFOA), for example, advocates for the use of benchmarking to tackle questions of debt capacity.

What the medians cannot do, however, is conclusively answer questions of debt affordability. One community may wish to exceed benchmarks temporarily or permanently to accomplish long-standing community goals such as overcoming historic legacies of underinvestment or other unique self-determined considerations.

The Bond Bank believes that comparative benchmarking can nevertheless provide a critical starting point for planning by introducing a substantive measure of objective criteria in what can otherwise be an exclusively subjective assessment. In other words, the pet selected may remain a mystery, but at least the lid to the basket will be open.

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