SUPPLEMENT C

Holdings of State and Local Government Obligations

The basic source for all statistics on total State and local government debt outstanding is the annual compilation made by the Governments Division, Bureau of the Census of the Department of Commerce. The total debt outstanding figure represents indebtedness of all State and local governments, including cities, towns, special districts, and public authorities; that is, what is commonly called "municipal securities." Included within the total debt figure are both long-term and short-term debt, interest-bearing and non-interest-bearing.

Data on State governments are based on reports from all 50 States and data on local governments are based on reports from a sample of local governments now numbering over 10,000 units, classified by type and size, including complete coverage of cities with populations in 1960 exceeding 25,000 and special districts with debt of $1 million or more in 1962. Aside from the sampling variability possibility,[1] these Census Bureau data are subject to a major weakness in that there is no common reporting date. Instead, all of the data, including the debt statistics, relate to the reporting government's fiscal year that ends within the period of review. Through 1963 the period of review was prescribed as the calendar year and since then it has been the 12 months ending June 30.

Data received by the Census Bureau cover all indebtedness of State and local governments, whether to private lenders, to the Federal Government, State government, or to public trust funds. In its tabulation, however, the Census Bureau excludes certain items that upon examination are not really indebtedness in the sense of being a firm commitment to repay. Loans where repayment is conditional are thus excluded. Accordingly, the total debt figures do not include Department of Housing and Urban Development advances for public works planning (where repayment is required only if construction is started) or for urban renewal planning (where repayment is required only if the project is undertaken). Similarly, California State loans for school buildings are excluded because repayment is contingent upon an assessment of ability to pay.[2]

The Bureau of the Census furnishes an annual total State and local government debt figure to the Treasury Department and to the Office of Business Economics, adjusted to June 30. The figure supplied to Treasury excludes non-interest-bearing debt and the figure supplied to OBE includes the non-interest-bearing debt. The Flow of Funds Section of the Board of Governors of the Federal Reserve System converts the Census compiled total debt figure into a calendar year-end figure by adding the net new issues of municipal securities (gross sales less estimated refinancings and retirements) for the third and fourth calendar quarters. The Capital Markets Branch of the Securities and Exchange Commission employs a similar technique to esti-

[1] From time to time Census reports uncover debt referred to for the first time that had been outstanding in previous years. These figures are incorporated into the current year tabulation, but corresponding adjustments are not made in earlier year total debt figures.

[2] According to "Moody's Municipal and Government Manual" (1966 issue), of the $448.4 million of debt service paid by the State through June 1965 on bonds issued for school building loans, $193.2 million, or 41 percent, came from repayments of school building loans.