

APPENDIX A

Comparative Data on Debt Limits,  
Debt Burdens, and Credit Ratings\*

Chart I shows that the per capita public debt of Puerto Rico (including Commonwealth, Municipal, and Aqueduct and Sewer bonded indebtedness) is insignificant in comparison with the total per capita public debt in the United States and is about one-fourth of the combined state and local government debt per capita. Chart II shows that the net public debt in Puerto Rico constitutes a much smaller percentage of income payments than does either the per capita Federal debt or the per capita state and local government debt in the States. It will be noted that the Federal debt is shown separately from the state and local government debt. Nevertheless, in assessing debt capacity the total per capita debt of all levels of government in the States might, in certain respects, be compared with the per capita debt in Puerto Rico. While it can be argued that the Federal debt could be repaid in part through issue of additional currency, the inflationary effects of such issue would be felt also in Puerto Rico and would ease in much the same degree the burden of Commonwealth debt repayment. On the other hand, the Commonwealth would not, of course, be able to issue currency to relieve its own debt burden and in that respect its debt capacity differs fundamentally from that of the United States.

The attached table indicates that there may be no correlation between the existence or non-existence of constitutional or other restraints on a

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\*Prepared by Emil J. Sady, largely on the basis of data supplied by the Government Development Bank of Puerto Rico.

CHART ONE  
PER CAPITALNET PUBLIC DEBT

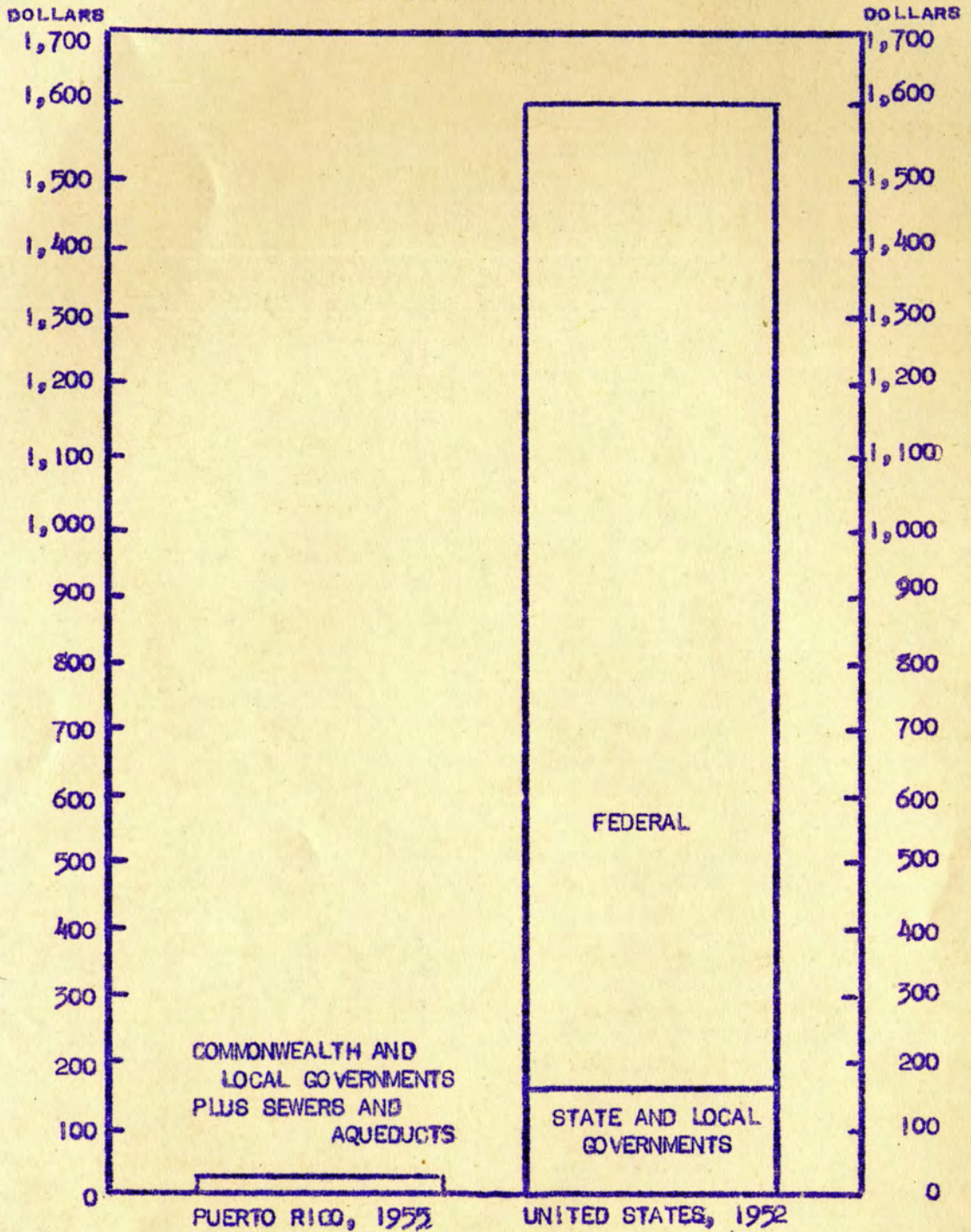
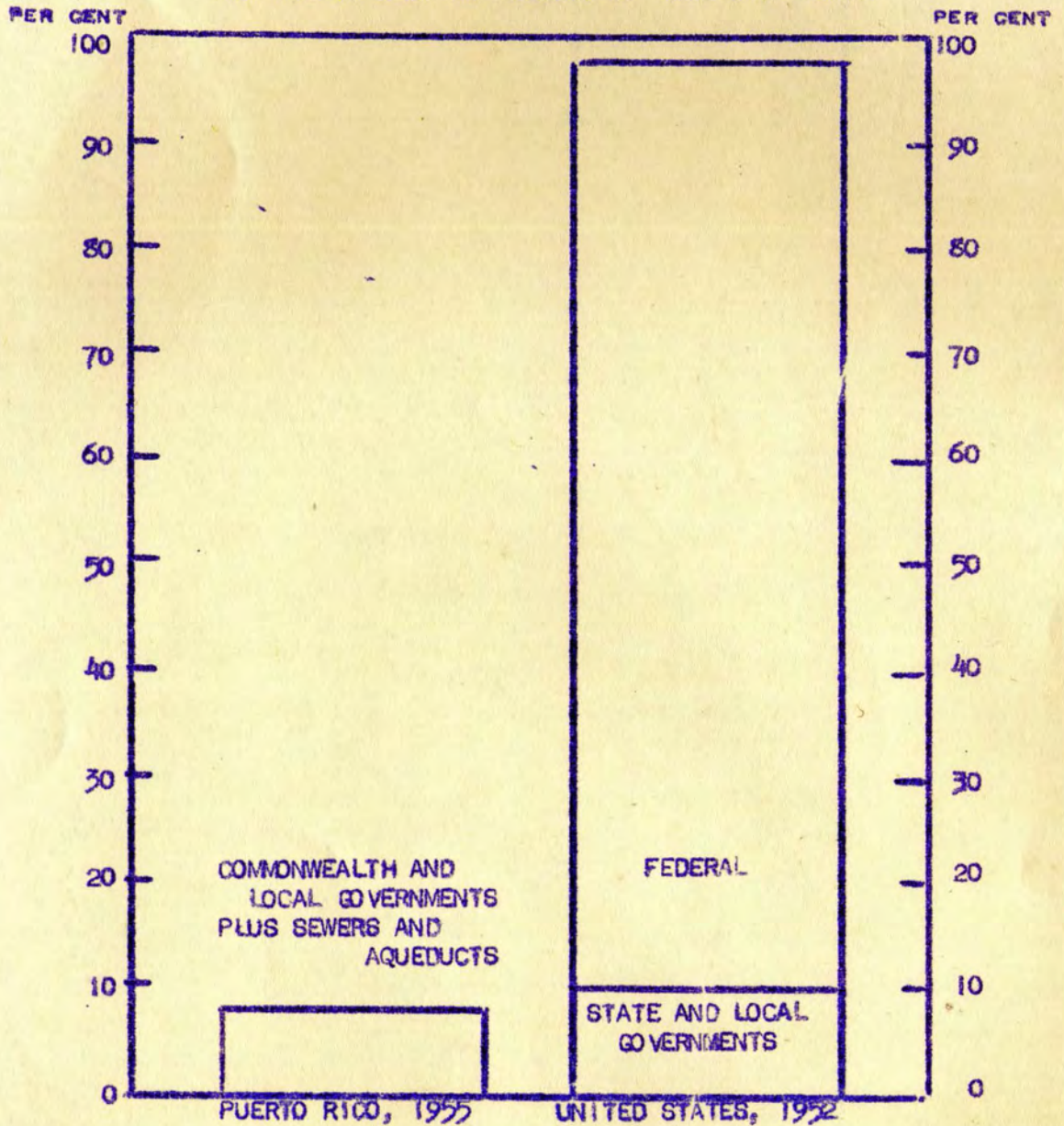


CHART TWO  
NET PUBLIC DEBT AS PERCENT OF INCOME PAYMENTS



State's bonded indebtedness and the credit rating of a State. While the existence of constitutional restraints on borrowing probably serves to hold down debt contraction, most states have far exceeded the express limitations stated in their constitutions. Thus, if constitutional debt provisions have any value at all from a credit rating standpoint, it must be because they make debt contraction more difficult (i.e. by requiring a constitutional amendment or popular referendum) and not because of any quantitative limit which they may appear to fix on the amount of debt that a state can contract. Moreover, seven states have no constitutional limitations on public borrowin and six of these are among the first 23 States with the highest ratio of debt to income payments-- indicating that they are relatively heavy borrowers. The following table shows the credit rating (Aaa is highest) made by Moody's in 1955 of the general obligation bonds of states with a debt limit and of those without a debt limit:

Rating	With Debt Limit	Without Debt Limit	Total States
Aaa	6	4	10
Aa	12	1	13
A	<u>5</u>	<u>1</u>	<u>6</u>
	23	6*	29

It should be noted that Puerto Rico's general obligation bonds have an "A" rating.

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\*Mississippi, which has no debt limit, was not included because no rating for its general obligation bonds, if any, was given. The rating for its highway bonds was "A".

A test was made to determine whether the rating by Moody's of a state's general obligation bonds was independent of the existence of a debt limit. The Chi-square test of independence indicated that it is highly probable that the rating is independent of the existence of a debt limit.\* Apparently other factors than debt limit determine the ratings given.

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\*According to Planning Board statisticians.

DEBT LIMITS, OUTSTANDING DEBT, AND CREDIT RATING OF  
GENERAL OBLIGATION BONDS AND RELATED DATA BY STATES

(Based largely on Information Supplied by  
Government Development Bank)

1 9 5 2

State	Maximum Debt With- out Constitutional Amendment or Refer- endum (Millions)	Additional Permissible Borrowing		Net Long Term Debt (Millions)	Per Capita Net Long- Term Debt <sup>1/</sup>	Per Capita Income Payments <sup>2/</sup>	% Debt is of Income Payments	% Debt is of assessed valuation	Moody's Rating General Obligation Bonds
		By Constitution- al Amendment	By Referendum						
Alabama	\$ .3	x		52.8	17.35	950	1.8	2.9	A
Arizona	.35	x		2.8	3.51	1,432	.24	3.	
Arkansas	No borrowing		x	122.4	64.06	926	6.9	15.	
California	.3		x	284.8	25.83	1,933	1.3	2.	Aa
Colorado	3.0	x		15.6	11.32	1,568	.72	1.	
Connecticut	Unlimited			78.6	38.58	1,715	2.25		Aaa
Delaware	Unlimited			90.9	262.72	2,076	13.3		Aa
Florida	No borrowing	x		64.5	21.79	1,284	1.7	1.	
Georgia	4.0	x		20.1	5.76	1,103	.52	1.	
Idaho	2.0		x	1.6	2.74	1,356	20.2	.3	
Illinois	.25		x	365.0	41.39	1,928	2.1	1.	Aa
Indiana	No borrowing <sup>3/</sup>	x		13.6	3.41	1,649	.206		
Iowa	.25		x	32.9	12.52	1,531	.8	.2	Aaa
Kansas	1.0		x	4.4	2.27	1,460	.1	.1	
Kentucky	.5		x	10.3	3.52	1,066	.33	.2	
Louisiana	2.0	x		200.9	78.18	1,135	6.4	8.	
Maine	2.0		x	26.2	29.42	1,298	2.36	3.	Aaa
Maryland	.05			163.0	66.77	1,714	3.88	4.	Aaa
Massachusetts	Unlimited			388.8	82.16	1,738	4.7		Aaa
Michigan	.25	x		343.9	52.54	1,734	3.0	3.	Aaa
Minnesota	.25	x		113.3	37.18	1,474	2.5	6.	Aa
Mississippi	Unlimited			67.6	30.83	771	4.0	6.	
Missouri	1.0		x	18.2	4.51	1,519	.31	.3	Aaa
Montana	.1		x	39.2	66.49	1,742	3.81	2.	Aa

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(Based largely on Information Supplied by  
Government Development Bank)

1 9 5 2

State	Maximum Debt With- out Constitutional Amendment or Refer- endum (Millions)	Additional Permissible Borrowing By Constitution- al Amendment	By Referendum	Net Long Term Debt (Millions)	Per Capita Net Long- Term Debt <sup>1/</sup>	Per Capita Income <sup>2/</sup> Payments	% Debt is of Income Payments	% Debt is of assessed valuation	Moody's Rating General Obligation Bonds
Nebraska	\$ .1	x		.8	0.61	1,510	.04	.03	
Nevada	1% of assessed valuation	x		.8	4.79	2,029	.236	.2	
New Hampshire	Unlimited			18.0	33.65	1,444	2.33	2.	Aaa
New Jersey	1% of year's total appropriation		x	336.8	67.71	1,885	3.6	5.	Aa
New Mexico	.2	x		26.5	37.65	1,301	2.8	4.	
New York	No borrowing		x	475.6	31.65	1,996	1.5	2.	Aaa
North Carolina	$\frac{4}{5}$			216.7	52.40	1,052	4.98	4.	Aa
North Dakota	$\frac{2.05}{5}$	x		12.2	20.23	1,403	1.4	1.	
Ohio	.75	x		161.9	20.07	1,799	1.1	1.	Aaa
Oklahoma	.5		x	120.6	53.21	1,182	4.5	6.	Aa
Oregon	.05	x		83.5	53.58	1,652	3.2	2.	A
Pennsylvania	1.0	x		866.1	82.03	1,663	4.93	6.	Aa
Rhode Island	.05		x	46.2	58.26	1,691	3.4	2.	A
South Carolina	No borrowing		x	116.4	54.80	1,003	5.5	19.	Aa
South Dakota	.1	x		5.5	8.47	1,529	.55	.4	A
Tennessee	Unlimited			90.3	27.22	1,064	2.6	3.9	A
Texas	.2	x		86.4	10.82	1,412	.76	1.	
Utah	1 1/2 of assessed valuation			.9	1.28	1,424	.08988	.1	
Vermont	Unlimited	x		5.0	13.40	1,322	1.0	1.	Aaa

DEBT LIMITS, OUTSTANDING DEBT, AND CREDIT RATING OF  
GENERAL OBLIGATION BONDS AND RELATED DATA BY STATES

(Based largely on Information Supplied by  
Government Development Bank)

1952

State	Maximum Debt With- out Constitutional Amendment or Refer- endum (Millions)	Additional Permissible Borrowing		Net Long Term Debt (Millions)	Per Capita Net Long- Term Debt	Per Capita Income <sup>2/</sup> Payments	% Debt is of Income Payments	% Debt is of assessed valuation	Moody's Rating General Obligation Bonds
		By Constitution- al Amendment	By Referendum						
Virginia	No borrowing <sup>3/</sup>		x	27.5	8.12	1,295	.6	.6	Aaa
Washington	.4 <sup>3/</sup>		x	164.4	67.77	1,755	8.1	7.	A
West Virginia	No borrowing <sup>3/</sup>	x		234.0	117.31	1,174	10.0	8.	A
Wisconsin	.1	x		5.0	1.45	1,614	.08983	.04	
Wyoming	1% of assessed valuation		x	4.4	14.95	1,722	.9	.7	
Puerto Rico	10% of assessed valuation			22.5	10.27	389	2.65	3.	A

<sup>1/</sup> Bureau of the Census, Government Debt in 1952, Washington 1952. For States, includes net bonded indebtedness backed by "full faith and credit" and also by non property taxes and other specific revenue sources.

<sup>2/</sup> Department of Commerce, Survey of Current Business, August 1952.

<sup>3/</sup> With popular approval, indebtedness may be incurred up to 1 percent of assessed valuation.

<sup>4/</sup> Bonds in excess must be secured by first mortgage on real estate in amounts not to exceed one-half its value; \$10 million limit on bonds based on property of state enterprises.

<sup>5/</sup> Except for ordinary and current business.