

Attachment No. 25

Long-term Obligations Indicators

Long-term Obligations Indicators – Overview



Objective:

Assess whether total long-term obligations are excessive, and whether their annual cost places a burden on an agency at the expense of services. The remaining years and amount of future payments towards outstanding debt and other long-term obligations should be considered when reviewing burden and cost indicators. The appropriateness of using debt vs. cash, or the cost of debt, are additional considerations not directly evaluated by these indicators.

Measures and Indicators:

Total Long-term Obligations — Typically measured by principal outstanding. Some obligations may consist of annual long-term lease payments that can be reflected in an annual cost measure.

Government-wide Revenues — General obligation debt secured by the “full faith and credit” of the agency can generally be compared to government-wide revenues. Debt repaid only from general revenues can be compared to general revenues, resulting in a higher (or worse) indicator. Debt that is secured by restricted revenues is best compared to those measures using a standard “debt coverage” ratio not addressed here.

Benchmarks and Indicators:

Long-term obligations’ principal outstanding as a percent of government-wide revenues

> 100% “High”

40-100% “Moderate”
< 40% “Low”

Annual cost of debt service as a percent of government-wide revenues

> 5 percent = “High”
3 percent – 5 percent = “Moderate”
< 3 percent = “Low”

High annual burdens can reduce funds available for other services and facilities.

Data Sources:

Annual financial reports often are the primary source for outstanding debt and debt payment schedules, but may be one year behind a current budget.

The financial reports typically include annual payment schedules for future years, and these payments should also be found in a current budget (although they may be consolidated or found in different funds).

See also:

- California State Auditor’s Risk Factors, [Debt Burden](#), which rates long-term obligations relative to government-wide revenues. The Risk Factors do not assess annual debt costs.