Legislative Fiscal Bureau
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TO: Senator Kathleen Vinehout
Room 3 South, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: Debt Restructuring Under ASA 1 to AB 40 and Debt Service

As you requested, this memorandum provides information on the GPR supported general obligation debt restructuring proposal under 2011-13 biennial budget bill, as passed by the Joint Committee on Finance (Assembly Substitute Amendment 1 to Assembly Bill 40). In addition, updated information on estimated future debt service that reflects the Committee's actions is also provided.

Governor's Debt Restructuring Proposal

The Governor's 2011-13 budget recommendations would provide $364,300,000 of general obligation refunding bonding for the purpose of restructuring outstanding principal on GPR-supported, general obligation bonds Under the proposed restructuring, the proceeds from the authorized refunding bonds would be used pay $332,637,600 in principal due in 2011-12 on state GPR-supported public debt that would otherwise be retired in that year. Although this bonding could be used to restructure both tax-supported and self-amortizing bonds, the administration indicates that only GPR-supported bonds would be restructured. These bonds could not be issued after June 30, 2013. In addition, GPR debt service amounts under the bill also reflect the administration's plans to restructure $104,810,800 in GPR commercial paper principal that is otherwise scheduled to be retired in 2011-12.

The Governor's proposed debt restructuring actions would have reduced individual agency, GPR debt service appropriations by $437,448,400 in 2011-12. These reductions would occur from the use of the refunding bond proceeds to make the principal payments due in 2011-12 and by deferring payment on outstanding GPR commercial paper. Under both debt restructuring actions, the principal on existing general obligation debt and commercial paper remains outstanding for a longer period of time and thus additional interest costs would be incurred by the state.

GPR Debt Restructuring Proposal Under Joint Finance

The Joint Finance Committee substitute amendment on the 2011-13 budget would reduce the amount of GPR restructuring bonding to be authorized by $100,100,000. As a result, the total amount of GPR debt restructuring in 2011-12 would be reduced from $437,448,400 to $337,348,400. A total of $264,200,000 in GPR restructuring bonding would be authorized.

TABLE 1

Potential Repayment Schedule Under JFC Debt Restructuring Proposal

Fiscal Year	Principal	Interest	Total
2011-12	$0	$0	$0
2012-13	0	15,957,218	15,957,218
2013-14	41,323,333	14,149,257	55,472,590
2014-15	43,071,095	12,401,494	55,472,590
2015-16	44,895,139	10,577,450	55,472,590
2016-17	46,798,883	8,673,706	55,472,590
2017-18	48,785,902	6,686,687	55,472,590
2018-19	20,002,669	4,612,654	24,615,323
2019-20	16,682,849	3,801,674	20,484,522
2020-21	15,479,875	3,122,943	18,602,818
2021-22	14,347,115	2,491,760	16,838,875
2022-23	10,507,292	1,905,288	12,412,579
2023-24	9,347,209	1,471,779	10,818,988
2024-25	5,840,964	1,084,014	6,924,977
2025-26	4,025,113	850,375	4,875,488
2026-27	4,186,118	689,371	4,875,488
2027-28	4,124,493	521,926	4,646,419
2028-29	3,848,084	356,946	4,205,030
2029-30	1,415,234	203,023	1,618,257
2030-31	1,252,042	146,413	1,398,455
3031-32	771,494	96,332	867,826
2032-33	802,353	65,472	867,826
2033-34	834,448	33,378	867,826
Total	$338,341,704	$89,899,160	$428,240,863

Impact on Future Debt Service

Historically, the state's debt management has been geared toward maintaining annual GPR debt service at no more than 4.0% of annual GPR tax revenues, with a target of annual GPR debt service that is between 3.0% and 3.5% of annual GPR tax revenues. This policy is intended to ensure that debt service does not consume an increasing share of the state budget and add to state out-year spending commitments. In developing its building program recommendations, the Building Commission considers the impact bonding authorizations would have on the GPR debt service to GPR revenues ratio. However, this impact is not a good measure for determining the amount of bonding to recommend in a biennial building program, because much of the bonding authorized in one biennium will not fully impact state GPR debt service payments until the following biennium at the earliest. For example, the full debt service impact of any bonds issued as result of the 2011-13 building program would not fully affect the GPR debt service to revenue ratio until the 2013-15 biennium at the earliest.

Estimates of future debt service amounts contain three primary components: (a) existing debt service on bonds that have been issued; (b) estimated debt service on bonds that have been previously authorized, but not yet issued; and (c) estimates on debt service for bonds authorized in the current biennium. Bonds are not always issued in the biennium in which the bonds are authorized, due to the timing of projects, or the bonds were authorized for a multi-year purpose like the state's stewardship program. These increased debt service amounts will be partially offset by old debt being retired during the period the bonds remain outstanding.

Table 2 provides an estimate of GPR debt service through the 2013-15 biennium based on the amount of existing debt, an estimate of the amounts of currently authorized debt that may be issued, and the anticipated issuance of the bonding under the Joint Finance Committee's action on the 2011-13 biennial budget. The table also indicates the debt service reductions in the current year and in the 2011-12, and the increases in expected debt service in future years, associated with the past deferral of GPR principal amounts and the amounts under the Joint Finance Committee's substitute amendment. As indicated in the table, the GPR bonding amounts in the substitute amendment and those amounts recommended in the 2011-13 building program would not impact GPR debt service amounts significantly until the 2013-15 biennium.

TABLE 2

Comparison of Estimated GPR Debt Service with Hypothetical GPR Tax Revenues
($ in Millions)

	2011-12	2012-13	2013-14	2014-15
Existing debt service*	$639.7	$633.5	$610.6	$546.2
GPR debt service on unissued authorized bonding	3.3	24.7	39.0	47.6
GPR debt service on deferred principal**	-338.3	16.0	55.5	55.5
GPR debt service on 2011-13 authorized bonding	0.0	5.1	23.4	43.3
Total	$304.7	$682.7	$728.5	$692.6
GPR tax revenues estimates	$13,368.4	$13,888.0		
at 2% growth			$14,165.8	$14,449.1
at 3% growth			14,304.6	14,733.8
at 4% growth			14,443.5	15,021.3
GPR debt service as percent of GPR tax revenues	2.28%	4.91%		
at 2% growth			5.14%	4.79%
at 3% growth			5.09	4.70
at 4% growth			5.04	4.63

* Includes offsets to GPR debt service with other sources.

** This amount includes a $5.9 million 2012 bond maturity that was refinanced as part of the Spring, 2011, debt restructuring transaction, which lowered the existing debt service for 2011-12 by that same principal amount.

As indicated in Table 2, the ratio of GPR debt service to GPR revenues is estimated to increase from a range of 4.63% to 5.14%, under the illustrated levels of growth in revenues, which is well above the state's 3.0% to 4.0% target. The growth in this ratio is due primarily to the restructured GPR principal amounts that have been deferred in recent years having to be repaid and to the higher levels of GPR bonding authorized in recent biennia.

I hope this information is helpful. Please contact me if you have any further questions.

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