



Legislative Fiscal Bureau

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TO: Senator Kathleen Vinehout
Room 3 South, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: History of the State's GPR Debt Restructuring Transactions Since 2001

As you requested, this memorandum provides information on the amount of GPR debt restructuring the state has carried out since fiscal year 2001-02. Specifically, information on the type of debt being restructured and the timing of debt restructuring transaction is provided.

Generally, debt is refinanced through either an economic refunding or a structural refunding, or a combination of those methods. In an economic refunding, the new stream of debt service payments is designed to reduce the total cost of the outstanding debt and is typically undertaken to take advantage of reduced interest rates. No increase in debt service payments occurs in any year due to an economic refunding and debt service payments are reduced in some or all years during the life of the refunding issue. The transaction can be structured so that the debt service savings are realized equally in each year during the life of the refunding bonds or concentrated in the early or late years of the transaction.

In the past, the state has restructured the principal amounts due on its short-term commercial paper debt and on its long term general obligation debt. The restructuring of commercial paper debt can be carried out by the Governor without authorizing legislation. The Department of Administration simply informs holders of the state's commercial paper that the state will not retire the principal amount scheduled to be retired in a given year. The state's GPR debt restructuring transactions have been carried so as to reduce current GPR debt service costs in order to balance the general fund budget for a given year. The debt service payments otherwise due are paid from additional commercial paper or refunding bond proceeds rather than from current GPR revenues.

The state's debt restructuring actions extend the average life of previously issued debt being refinanced because the transactions involve delaying a principal payment that is currently due. No remaining repayment schedule would exist for that principal had it been repaid and not

restructured into the future. As a result, principal on the restructured bonds is outstanding longer and therefore, the interest costs to the issuer are greater.

Also, the proceeds from general obligation bonds or short-term commercial paper related to those obligations that is issued by the state are required under the state Constitution to be used to construct or improve long-term assets such as roads, harbors, railways, or state buildings, to purchase land or other assets under programs like the state's stewardship program, or to protect the state's water or other natural resources under a program like the nonpoint source pollution abatement program. Conversely, in issuing bonds to restructure its existing general obligation debt, the state incurs an additional long-term debt obligation but would not acquire any additional offsetting capital asset associated with that debt. Rather, the state is issuing additional debt only for the purposes of making a principal payment on its existing general obligation bond or commercial paper debt.

The attachment lists the amounts, types, and timing of the GPR debt restructurings carried out since 2001. The act that authorized bonding is also provided. It should be noted that while legislation is not required for the restructuring of commercial paper, the acts indicated for the commercial paper restructuring actions are the acts that included estimates of the reduced GPR debt service costs associated with the restructured commercial paper.

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

AR/sas
Attachment

ATTACHMENT

Recent History of GPR Debt Restructuring (\$ in Millions)

	<u>Amount</u>	
From 2001 to 2002		
<i>2001 Act 16</i>		
2001-02 Commercial Paper	\$102.0	
<i>2001 Act 109</i>		
2002-03 Commercial Paper	<u>25.0</u>	
Total	\$127.0	
From 2003 to 2010		
<i>2003 Act 129</i>		
2003-04	2004 Series 3	\$175.0
<i>2007 Act 226</i>		
2007-08	Commercial Paper	63.6
2008-09	Commercial Paper	61.6
<i>2009 Act 28</i>		
2009-10	2009 Series 1	54.4
2009-10	2010 Series 1	201.2
2009-10	Commercial Paper	107.0
2010-11	Commercial Paper	<u>107.0</u>
Total		\$769.8
From 2011 to 2012		
<i>2009 Act 28 Remaining Authority/2011 Act 13</i>		
2010-11	2011 Series 1	\$190.1
<i>2011 Act 32</i>		
2011-12	2011 Series 2	45.4
2011-12	Commercial Paper	104.8
2011-12	2012 Series 1	<u>218.0</u>
Total		\$558.3
Grand Total		\$1,455.1