Legislative Fiscal Bureau

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TO: Senator Kathleen Vinehout
Room 22 South, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: State Debt Related Questions

As you requested, this memorandum provides information on your questions related to the level of state indebtedness on the various types of state-issued bonds and the estimated future debt service on the state's GPR supported general obligation debt.

Outstanding Indebtedness on State-Issued Bonds

The state's general obligation debt is backed by the "full faith and credit" of the state. The state's pledge to repay its general obligation debt is an unconditional promise of the state to use its taxing authority to assure repayment of the debt.

The state currently has three revenue obligation debt programs: (a) the transportation revenue obligation bond program, which funds the construction and major renovation of state highways and related infrastructure; (b) the clean water fund revenue obligation bond program, which provides loans to municipalities in the state for water pollution control projects; and (c) the petroleum inspection fee revenue obligation bond program, which provides petroleum environmental cleanup fund awards (PECFA) grants to individuals to fund approved remediation of soil and water petroleum contamination.

Under 2003 Act 33, the state created an appropriation obligation bond program, under which the state issued bonds, payable from funds to be appropriated by the state, to pay off the state's unfunded prior service pension and accumulated sick leave conversion credit liabilities. Under 2007 Act 226, the state created a second appropriation bond program for the purpose of repurchasing the rights to the state's tobacco settlement revenues, which were earlier securitized by the state.

Annual debt service payments on outstanding general obligation bonds are paid from sum sufficient general fund, segregated fund, and program revenue account appropriations. General obligation bond debt service payments are the first draw on revenues to these funds or accounts. If segregated or program revenues would be insufficient to cover the annual debt service amounts scheduled to be paid from a segregated fund or program revenue account, those payments would be made from the general fund.

Principal and interest payments on revenue obligation bonds issued under various programs are made from a dedicated revenue source, which supports the debt issued. The annual debt service payments on the transportation revenue obligation bonds are a first draw from the state's annual motor vehicle registration fees and various other transportation related fees. Annual debt service payments on the clean water fund bonds are a first draw on annual clean water fund loan repayment funds. Annual debt service payments on PECFA revenue obligations are a first draw on annual revenues from the state's two cent per gallon petroleum inspection fee on petroleum-based products sold in the state.

Appropriation bonds are considered an undertaking by the state to repay a certain amount of borrowed money that is payable from the general fund, subject to the annual appropriation of funds by the Legislature.

The attachment to this memorandum provides the level of outstanding principal as of December of each year since 1996 for each type of bonds issued by the state, with estimates shown for 2013, 2014, and 2015.

Debt Service on GPR Supported General Obligation Bonds

Historically, the state's debt management policy has been geared toward maintaining annual GPR debt service on its general obligation bonds at no more than 4.0% 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 their biennial budget and building program recommendations, the Governor and the Building Commission take into account the impact that additional bonding authority to be recommended for the subsequent biennium would have on the GPR debt service to GPR revenues ratio.

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 if the bonds were authorized for a multi-year purpose like the state's stewardship program. Generally, these increased debt service amounts are partially offset by old debt being retired during the period the bonds remain outstanding.

In recent years, the state has carried out several debt restructuring actions, which involved delaying principal payments that were due by issuing additional debt to make the payments. This effectively extends the average life of previously issued debt and increases the state's interest cost related to that debt. The 2013-15 budget, as passed by the Legislature, does not include any additional GPR debt restructuring actions in the GPR fund condition.

The following table provides an estimate of GPR debt service through the 2013-15 biennium based on the estimated amount of debt service included under the 2013-15 budget, as passed by the Legislature. The revenue amounts for the 2013-15 biennium reflect the revenue estimates conducted by this office and reported to the Legislature on May 9, 2013, as well as changes to those revenues included under the 2013-15 budget, as passed by the Legislature.

As the table indicates, the ratio of GPR debt service to GPR tax revenues in the 2013-15 biennium is estimated to be 5.26% in 2013-14 and 4.88% in 2014-15 based estimated revenues and debt service expenditures included under the 2013-15 budget, as passed by the Legislature. The ratio for each year of the biennium is well above the state's historical 4.0% target. The size of this ratio is due to the repeated restructuring of GPR principal amounts in recent years, which failed to reduce outstanding GPR principal when such actions were carried out, and the additional amounts of GPR bonding being issued during the same period.

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

	2011-12	2012-13	2013-14	2014-15
Estimated Debt Service	$155.1[(1)]	$619.0	$738.0	$708.4
GPR tax revenues estimates[(2)]	$13,514.6	$14,014.1	$14,013.5	$14,517.5
GPR debt service as percent of GPR tax revenues	1.11%	4.41%	5.26%	4.88%

(1) Reflects $368.2 million in debt restructuring.
(2) Estimated revenues included in May 9, 2013, memo on GPR fund condition and changes to tax revenues under the 2013-15 budget as passed by the Legislature.

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

AR/sas
Attachment

ATTACHMENT

Outstanding Principal on State Bonding Programs

Type of Bonds	Outstanding Debt - December 1996	1997	1998	1999	2000	2001	2002
General Obligation Bonds	$3,288,068,499	$3,428,350,624	$3,564,224,069	$3,743,065,380	$4,067,583,077	$4,240,443,481	$4,386,223,967
Transportation Revenue Obligations	750,565,000	878,309,000	957,198,000	915,717,188	1,000,878,000	1,099,258,000	1,244,498,000
Clean Water Revenue Obligations	370,930,000	437,370,000	513,355,000	569,155,000	545,625,000	588,380,000	656,885,000
PECFA Revenue Obligations	0	0	0	0	248,500,000	278,500,000	329,360,000
Appropriation Obligations							
Pension	0	0	0	0	0	0	0
Tobacco Settlement	0	0	0	0	0	0	0
Total	$4,409,563,499	$4,744,029,624	$5,034,777,069	$5,227,937,568	$5,862,586,077	$6,206,581,481	$6,616,966,967

Type of Bonds	Outstanding Debt - December 2003	2004	2005	2006	2007	2008	2009
General Obligation Bonds	$4,370,162,682	$4,876,460,340	$5,092,347,700	$5,697,308,689	$5,781,428,689	$5,939,381,430	$6,222,792,744
Transportation Revenue Obligations	1,442,078,000	1,376,743,000	1,524,168,000	1,537,393,000	1,598,528,000	1,688,753,000	1,759,238,000
Clean Water Revenue Obligations	620,480,000	682,935,000	641,435,000	776,660,000	729,575,000	866,035,000	805,305,000
PECFA Revenue Obligations	317,290,000	348,455,000	300,250,000	272,590,000	252,320,000	231,040,000	188,610,000
Appropriation Obligations							
Pension	1,794,585,000	1,794,585,000	1,794,585,000	1,794,585,000	1,794,585,000	1,857,120,000	1,850,645,000
Tobacco Settlement	0	0	0	0	0	0	1,529,065,000
Total	$8,544,595,682	$9,079,178,340	$9,352,785,700	$10,078,536,689	$10,156,436,689	$10,582,329,430	$12,355,655,744

Type of Bonds	Outstanding Debt - December 2010	2011	2012	2013*	2014*	2015*
General Obligation Bonds	$6,822,771,981	$7,378,610,319	$8,014,705,521	$8,040,932,897	$8,176,529,235	$8,524,397,905
Transportation Revenue Obligations	1,866,138,000	1,768,193,000	1,806,153,000	1,952,423,000	2,024,473,000	2,086,483,000
Clean Water Revenue Obligations	968,165,000	897,745,000	885,510,000	839,305,000	880,135,000	868,885,000
PECFA Revenue Obligations	188,610,000	188,610,000	188,610,000	188,610,000	164,445,000	139,100,000
Appropriation Obligations						
Pension	1,836,825,000	1,816,775,000	1,791,395,000	1,754,890,000	1,682,140,000	1,637,165,000
Tobacco Settlement	1,522,865,000	1,517,080,000	1,511,230,000	1,504,600,000	1,497,090,000	1,478,770,000
Total	$13,205,374,981	$13,566,743,319	$14,197,603,521	$14,280,760,897	$14,424,812,235	$14,734,800,905

*Estimated.