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Short-Term Debt Restructuring (Building Commission)

CURRENT LAW

In March, 1997, the Building Commission authorized a general obligation commercial paper financing program. The program involves the state issuing short-term commercial paper notes with maturities of 270 days or less in order to delay the issuance of long-term bonds for a period of time. The program includes a liquidity facility provided by a group of banks. This liquidity facility is needed in the event maturing commercial paper notes cannot be "rolled-over" to pay for maturing commercial paper notes.

In August, 2000, the Building Commission authorized a general obligation extendible municipal commercial paper program. This program operates the same as a commercial paper program; however, it does not require the state to maintain a liquidity facility as the investor provides liquidity by agreeing to an extended maturity date in the event "roll-over" extendible municipal commercial paper cannot be issued to pay for maturing paper.

As of December, 2014, the state had $165.4 million in commercial paper debt outstanding and had $637.2 million in extendible municipal commercial paper debt outstanding.

GOVERNOR

No provision.

DISCUSSION POINTS

Amortization Schedule for Commercial Paper Principal

1. Long-term general obligation debt principal is typically amortized over a 10- or 20-year period depending on the life of the asset being financed by the bond proceeds. The Building Commission and the Department of Administration (DOA), as matter of practice, have typically required that the state's general obligation commercial paper programs amortize the repayment of principal in a manner similar to how the state retires its long-term general obligation debt. These principal repayments on the state's general obligation short-term borrowing programs are then included in the annual budgeted debt service amounts and paid from the same debt service appropriations as the state's long term debt. However, no statutory requirement exists that DOA retire the state's short-term debt obligation principal in this manner. Rather, only the annual interest due on those obligations are technically required to be paid.

2. The state's commercial paper program tries to take advantage of short-term borrowing rates, when those rates are substantially lower than long-term rates. As a result, the interest costs on such debt are relatively low compared to the state's long-term debt. In managing the program, an administration could choose not to establish a set amortization schedule for repayment of the state's general obligation commercial paper principal and could instead annually roll over the principal amounts and only pay the interest costs due on the outstanding principal each year. [Alternative A2]

3. However, rolling over the principal amount of this short-term debt periodically can inhibit the ability of the state to reduce its overall outstanding debt. Reducing its overall debt requires that the state retire more principal than the amount of debt that is issued each year. If the Committee would like to ensure that the state amortize the repayment of principal on its short-term debt obligations in the same manner as its long-term debt obligations, the Committee could require that DOA amortize the repayment of principal on the state's short-term, general obligation commercial paper programs so that a uniform portion of the principal amount of such obligations is retired annually. Short-term commercial paper program could be defined as a short-term debt obligation issued in lieu of long-term, state general obligation debt. [Alternative A1]

Restructuring of Commercial Paper Principal

4. Generally, the state's debt is refinanced in 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.

5. In a structural refunding, the new stream of debt service payments can be higher or lower in a given year than under the current stream of payments. For example, the debt service payments in the early years of the refunding could be reduced while debt service payments are

increased in future years. A structural refunding tends to increase the average life of debt. Bonds are outstanding longer and therefore, the interest costs tend to be greater.

6. Since 2001, the state has carried out structural refundings of $1,455.1 million in short-term commercial paper and general obligation bond principal payments through the issuance of refunding bonds. Under these structural refundings, the state issued refunding bonds and used the proceeds on those bonds to make payments on current year principal due on its general obligation debt, or rolled over commercial paper that otherwise would have been paid off. These actions increased the average life of the debt refunded, and because the principal that would have been repaid was outstanding longer, the state incurred higher interest costs. The structural refunding of long-term debt was authorized by the Legislature.

7. In addition, Assembly Bill 21/Senate Bill 21 (AB 21/SB 21) includes an increase in estimated GPR debt service by $544,900 in 2015-16 and $18,746,900 in 2016-17 associated with the administration's decision to defer $108,000,000 in outstanding state commercial paper principal that would have otherwise be paid in May, 2015. The increased debt service cost would be spread over all GPR bonding purposes and corresponding debt service appropriations on which the commercial paper is due. The debt service costs in 2015-16 are associated with interest on the $108,000,000 in deferred principal. The debt service costs in 2016-17 also reflect interest due on the deferred principal as well as the repayment of a portion of the deferred principal

8. AB 21/SB 21 also includes provisions that would increase bonding authorization for the economic refunding of any outstanding tax-supported or self-amortizing state general obligation debt by $1,500,000,000, from its current level of $3,785,000,000 to $5,285,000,000. These bonds could only be issued if the debt refinancing meets the current law requirement that the true interest costs to the state must be reduced.

9. Unlike the economic or structural refinancing of long-term general obligation debt, the administration can restructure the repayment of principal under the commercial paper programs without legislative approval. Administrations have chosen and could continue to choose not to repay the principal portion of the debt that they had previously been scheduled to be repaid and that was budgeted for by the Legislature.

10. Having the flexibility to choose to repay or not repay principal on the its outstanding commercial paper debt allows an administration to meet relatively small budget shortfalls in a given year without any action of the Legislature. That is, instead of introducing budget adjustment legislation, administrations can defer the payment of principal on these short-term borrowings. Further, because short-term rates on outstanding commercial paper are comparatively low, they can do so at a minimal cost to the state. [Alternative B2]

11. Conversely, if the Committee would like the Legislature to be involved in any decision to defer principal payment on its short-term, general obligation commercial paper programs, it could specify that no scheduled principal amount of debt associated with the state's general obligation commercial paper programs may delayed without: (a) an act of the Legislature [Alternative B1a]; or (b) approval of the Joint Committee on Finance under s. 13.10. [Alternative B1b]

ALTERNATIVES

A. Amortization Schedule for Commercial Paper Principal

1. Require that DOA amortize the repayment of principal repayment on the state's short-term, general obligation commercial paper programs so that a uniform portion of the principal amount of such obligations is retired annually. Define short-term commercial paper program as a short-term debt obligation issued in lieu of long-term state general obligation debt.

2. Take no action.

B. Restructuring of Commercial Paper Principal

1. Specify that the principal amortization schedules for the state's general obligation commercial paper programs initially established by DOA may not be modified except:

(a) an act of the Legislature; or

(b) approval of the Joint Committee on Finance under s. 13.10.

2. Take no action.

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