22t4

(Base) Agency: Building Program
Bonding Authorizations

Recommendations:

Paper No. 251: Alternative 1

Gard. 1

Comments: This is a good big-picture paper and FB should be commended for raising the issue of bonding and it's associated costs.

However, bonding is a fact of budgetary life. We are well below the 4% ceiling set by DOA's budget experts. There are often good financial reasons to bond for projects. The only caveat is that we don't view this as "easy" money and use bonding to fund low-priority projects that wouldn't withstand present day funding requests.

The state already has a pretty favorable bond rating which allows us to borrow at very competitive rates. I suppose we could go on an austerity diet (along with paying bills in current fiscal years to reduce structural deficits) and try to improve our bond rating even more. But, I fear that would greatly limit services and other governmental projects that people expect to be taken care of.

I agree we should attempt to keep bonding to a minimum (and pay our bills on time) - that's why I'm recommending Alternative 1, which requires DOA to keep JFC better apprised of long-term debt service trends - but anything more than that should be the work product of bond experts and DOA officials.

Cowles motion

prepared by: Barry

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June 3, 1999 | Joint Committee on Finance | Paper #251

Bonding Authorizations 1999-01 Biennium (Building Program)

CURRENT LAW

Through May, 1999, the Legislature has authorized approximately $11.35 billion of general obligation debt, of which $9.87 billion has been issued or used through the 1999 Series A bond issue and $1.48 billion remains available for issuance.

GOVERNOR

As part of the 1999-01 capital budget amendment and the 1999-01 biennial budget, approximately $790.8 million in general fund supported general obligation bonding is proposed for authorization. In addition, Senate Bill 179 would authorize $59.5 million in general fund supported general obligation for the enumeration of the East Wing capitol renovation project in the 1999-01 state building program.

DISCUSSION POINTS

This paper discusses some of the policy issues associated with using bonding to pay for the state's capital improvement projects. It also provides a brief description of the types of bonds issued by the state and provides information on the amount of outstanding bonds, the increase in bonding authorizations under AB 133 and the proposed state building program. Lastly, the paper discusses the level of GPR debt service on existing general obligation bond authorizations and the increase in future GPR debt service associated with bonding authorizations in AB 133 as well as the proposed 1999-01 state building program.

Paying Cash Versus Borrowing

1. State governments have financed their capital project requirements using three options: paying for projects with cash, borrowing for projects and repaying the resulting debt over time, and leasing project facilities. Using cash requires the appropriation of either lump sum

amounts, usually for smaller projects, or a series of amounts as larger facilities are built over several years. In recent years, some jurisdictions have earmarked continuing revenue flows such as lottery proceeds for current funding of capital construction. An advantage of using cash is that it may cost less, since there are no interest or debt issuance costs. A disadvantage is that adverse fiscal conditions or competing spending priorities can result in insufficient revenues to fund projects.

2. If current revenues cannot support state capital improvement needs, states may choose bonding to finance the projects. Long-term borrowing for capital construction has several advantages: (1) costs can be spread over the useful life of projects, with future users of projects sharing those costs; (2) citizens can derive near-term benefits from capital expenditures; (3) higher taxes to provide necessary capital facilities may be avoided; (4) costs may be reduced in periods of high inflation when the interest paid on debt is less than the increased construction costs from waiting to finance projects with cash; and (5) the federal tax exempt status of the bonds allows borrowing on advantageous terms.

3. However, there can be disadvantages to the use of long-term financing: (1) debt repayment commits the state to many years of fixed costs; (2) bonding can fund lower-priority projects that may not be approved using cash; and (3) excessive bonding can increase the interest rate an issuer has to pay, and could negatively affect state credit ratings, which could increase interest costs on future bond issues.

Type of Bonds

4. Bonds fall into two broad categories defined by the security offered for their repayment: general obligation bonds and revenue obligation bonds. General obligation bonds are backed by the "full faith and credit" of the issuers for repayment. This repayment pledge is an unconditional promise by issuers to collect taxes or take whatever other steps are necessary to assure repayment. Nearly all of the increased bonding authorizations for the 1999-01 building program projects are general obligation bonds.

5. General obligation bonds are limited to constitutionally and statutorily defined levels and uses. They are used to support facilities such as state office buildings and correctional and educational institutions, veterans housing loans, as well as a variety of local assistance grant programs. The debt service on most general obligation bonds is paid for from general fund revenues; however, the debt service can also be funded from program or segregated revenues. For example, some general obligation bonds are used to fund the construction of self-amortizing facilities such as dormitories. The program revenue generated by these facilities is used to meet debt service payments; if facility revenues are insufficient, the state is obligated to use tax revenues to pay the bonds. Veterans housing loans are repaid from a segregated fund that draws its revenues from mortgage payments by veterans.

6. Conversely, revenue bonds rely on rents or user fees collected from public enterprises or facilities, or on a designated stream of revenues. The income generated by these enterprises or facilities is the sole guarantee or pledge for repayment from the borrowers. For

example, registration fee revenues back the state's transportation revenue bonds and loan repayments provide the revenue for clean water fund revenue obligations. Similarly, the petroleum inspection fee would provide the dedicated stream of revenue for the proposed PECFA revenue obligations. Revenue bonds generally are not subject to the same constitutional debt limitations as are general obligation bonds.

Existing Authorization of General Obligation Bonds

7. The specific purposes for which general obligation debt may be contracted are authorized by the Legislature. Most of these bonding authorizations are contained in the biennial budget to fund that biennium's building program, as well as other bonding programs. The Building Commission, with the assistance of DOA's capital finance office then issues the bonds to fund the projects for which the bonding was authorized.

8. As of December, 1998, Wisconsin had approximately $3.56 billion of general obligation and building corporation bonds outstanding, which represents the principal amount of debt that remains to be paid from issuing approximately $9.72 billion of general obligation bonds to that date. The following table presents a summary of the outstanding state general obligation and building corporation indebtedness as of December, 1998.

Outstanding General Obligation and Building Corporation Debt -- As of December, 1998

Bonding Category	Amount Outstanding
Tax Supported	
General Fund	$2,430,026,618
Segregated Funds	45,531,119
Subtotal	$2,475,557,737
Self-Amortizing	
Veterans' Mortgage Loans	$745,324,070
University of Wisconsin And Other Minor Categories	343,974,220
Subtotal	1,089,298,290
TOTAL	$3,564,856,027

1999-01 General Obligation Bonding Authorizations

9. As part of the biennial building program, the Legislature also authorizes any new bonding or other monies needed to fund the projects enumerated in the state building program. The 1999-01 building program recommendations include the authorization of $573,997,900 in general obligation bonding, including: (a) $380,551,400 of new GPR-supported general obligation borrowing; (b) $185,815,000 of PR-supported general obligation borrowing; and (c) $7,361,500 in segregated revenue supported borrowing.

10. The following table indicates how the $380.5 million in GPR-supported general obligation recommended as part of the 1999-01 state building program compares with past biennial building programs authorized as part of the biennial budget process.

GPR-Supported General Obligation
Bonding Authorized in the State Building Program
($ in Millions)

Biennium	Authorization
1989-91	$278.9
1991-93	468.1
1993-95	225.6
1995-97	246.7
1997-99	366.2
1999-01	380.5

11. In addition to the $380.5 million in GPR-supported general obligation bonding recommended in the state building program, GPR-supported bonding is also proposed for non-building program purposes under the biennial budget bill (AB 133) as modified by the Finance Committee to date. These purposes include $51.9 million in bonding for environmental and water quality improvement. Also, the proposed stewardship reauthorization and the East Wing of the Capitol renovation project proposed in Senate Bill 179 contain GPR-supported bonding increases. The following table identifies the proposed GPR-supported general obligation authority for the 1999-01 biennium, excluding refunding bond authorizations.

GPR-Supported General Obligation Bonding (1999-01)
($ in Millions)

	Authorization
State Building Program	$380.5
Bonding in AB 133	51.9
East Wing Renovation (SB 179)	59.5
Stewardship*	350.0
Total	$841.9

* Only $25.0 million would be available in the biennium.

12. Of the $841.9 million in proposed GPR-supported bonding authorizations for the 1999-01 biennium, $325.0 million of that authority, associated with the stewardship reauthorization, would not be available until future biennia. However, this authorization could reduce the acceptable level of bonding available to meet the funding priorities of future biennia. Excluding this $325.0 million, approximately $516.9 million in bonding would be authorized for issuance in the biennium. The $516.9 million would be higher than the amounts authorized in previous biennia: $495.0 million in 1991-93, $391.7 million in 1993-95, $338.8 million in 1995-97 and $500.0 million in 1997-99.

Debt Service Estimates

13. GPR debt service has ranged from 2.83% to 3.39% of GPR expenditures during the decade. The following table indicates the GPR debt service as a percentage of GPR expenditures during the decade

Annual GPR Debt Service ($ in Millions)

Fiscal Year	GPR Expenditures	GPR Debt Service	Debt Service as a % of Expenditures
1990-91	$6,364.5	$193.2	3.04%
1991-92	6,650.7	188.4	2.83
1992-93	6,922.1	190.3	2.75
1993-94	7,276.6	246.5	3.39
1994-95	7,790.0	250.3	3.21
1995-96	8,162.3	271.2	3.32
1996-97	9,283.5	278.1	3.00
1997-98	9,694.5	285.2	2.94
1998-99	9,989.2	294.7	2.95

14. The Governor's "Budget in Brief" indicated that the state's debt management is geared at maintaining annual GPR debt service at no more than 4.0% of annual GPR revenues, with a target of annual GPR debt service that is between 3.0 % and 3.5% of annual GPR revenues. This limitation is suggested to insure that debt service does not consume an increasing share of the state budget. DOA indicated that the new bonding in AB 133, as introduced, and the state building program should not cause debt service to rise above 3.3% of GPR revenues prior to 2003.

15. 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. Due to the timing of debt service payments, the bonds authorized in AB 133 and the state building program will not likely have a significant impact on debt service payments in the 1999-01 biennium, but would affect debt service in the 2001-03

biennium. As an example of the effects of debt issuance on these percentages, the debt service on $125 million of bonds issued in 1999-00 with a 20-year level payment debt service structure would equal approximately 0.1% of projected 2000-01 general fund tax revenues. This percentage share would decrease in future years, since the debt service amount is fixed for the life of the bonds, while general fund tax revenues will increase over time.

16. DOA's estimates of the allowable amount of GPR-supported general obligation bonding that could be included in AB 133 and the state building program were based on maintaining GPR debt service at approximately 3.3% of GPR revenues. However, when the Governor's general fund tax changes in the bill are considered, it is possible that GPR debt service could exceed the 3.3% estimate. The following table provides an estimate of GPR debt service for the next three biennia based on the amount of existing debt, DOA's estimate of the amounts of currently authorized debt that may be issued and the anticipated issuance of the bonding authorized in AB 133 and the stewardship reauthorization.

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

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Existing debt service	$305.6	$291.9	$278.9	$264.0	$242.8	$227.8
GPR Debt service on unissued authorized bonding	5.1	43.7	69.6	81.0	87.7	89.0
GPR Debt service on 1999-01 authorized bonding	0.0	0.0	8.1	28.9	60.7	92.3
Total	$308.7	$330.5	$356.6	$373.9	$391.1	$409.1
GPR tax revenues under AB 133	$10,120.3	$10,228.3				
at 4% growth			10,637.4	11,062.9	11,505.4	11,965.7
at 5% growth			10,739.7	11,276.7	11,840.5	12,432.6
GPR debt service as percent of GPR tax revenues	3.05%	3.23%				
at 4% growth			3.35%	3.38%	3.40%	3.42%
at 5% growth			3.32%	3.32%	3.30%	3.29%

17. The above table assumes that future issuance of GPR-supported general obligation bonds would be at levels that would be higher than in past biennia, which is primarily due to the amount of existing authorization that is available and the amount of proposed bonding. In the event that anticipated debt service levels exceed 3.3%, DOA and the Building Commission could limit the issuance of bonding authorized. However, if that course is chosen, the ability to carry out the projects contained in the state building program or the program activities associated with the bonding provided in AB 133 could be impaired. In addition, since the 3.3% level is within the target range of 3.0 to 3.5%, and is below the administration's ceiling of 4.0%, it does not appear that the Commission would need to limit the issuance of bonding.

18. The state Constitution imposes a ceiling on the aggregate amount of general obligation debt the state may incur in any calendar year. Over the past ten years, the state has ranged between 10% and 45.7% of this annual limit. In addition, there is an alternative calculation of the annual debt limit under the Constitution that is based on the cumulative level of outstanding debt. Under this calculation, the state has used 29% of the allowable net indebtedness. As a result, the state's annual debt issuance has been well under the limits on debt issuance established in the Constitution.

19. In general, the bond market, by assessing the state's ability to meet its debt service obligations, along with its programmatic and administrative governmental functions, provides an indicator on the cumulative debt levels of the state. The state currently has a strong bond rating and can borrow money at very competitive interest rates. If the state's debt gets levels get too high, relative to our ability to repay, a financial penalty would be incurred in the form of having to pay higher interest rates and eventually the state's bond rating could suffer. This is the reasoning behind the DOA's self-imposed 4.0% limit on annual GPR debt service as a percentage of GPR revenues.

20. If the Finance Committee wishes to more closely monitor the amount of GPR-supported general obligation bonding being issued each year, the Finance Committee could establish a formal reporting requirement for DOA relating to long-term trends in debt service as a proportion of general fund revenues. This type of planning document would be similar to the projections prepared by DOA and presented in the "Budget in Brief," but could be required to be included as part of the building program documents that are submitted to the Finance Committee in April of the odd-numbered years. The Finance Committee could require that this estimate reflect all of the proposed bonding in the budget bill, including the building program as well as all other borrowing purposes.

21. If the Finance Committee is concerned about the overall level of GPR-supported general obligation bonding, a statutory limit could be established on the new bonding that could be authorized in each biennium. For example, the level of non-refunding GPR-supported borrowing that could be authorized in each biennium could be limited to 5% of the GPR tax revenues received by the state in the even-numbered fiscal year of that biennium. Had this limit been in effect for the 1999-01 biennium, based on the Governor's revenue estimates for 1999-00, this would have limited new GPR supported borrowing to $506 million, which would be $11 million less than the amount proposed that could be issued in the biennium.

22. However, such a limit could reduce the flexibility of future Legislatures to meet program and capital budget demands in the event that general fund revenues, and the allowable level of bonding, would not meet those needs. In addition, a statutory limit can be modified or eliminated by subsequent legislation, so it would not bind future legislative action.

ALTERNATIVES TO BASE

1. Require that DOA include projections relating to long-term trends in debt service as a proportion of general fund tax revenues in the building program recommendations that are submitted to the Finance Committee in April of each odd-numbered year. Specify that this estimate reflect all of the proposed bonding in the budget bill, including the building program as well as other borrowing purposes.

2. Effective with the 2001-03 biennium, establish a statutory limit on the level of non-refunding, GPR-supported borrowing that could be authorized by Legislature in each biennium to 5% of the GPR tax revenues received by the state in the even-numbered fiscal year of that biennium.

3. Maintain current law.

Prepared by: Al Runde

MO# Alt 1

2	BURKE	Y	N	A
	DECKER	Y	N	A
	JAUCH	Y	N	A
	MOORE	Y	N	A
	SHIBILSKI	Y	N	A
	PLACHE	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
1	GARD	Y	N	A
	PORTER	Y	N	A
	KAUFERT	Y	N	A
	ALBERS	Y	N	A
	DUFF	Y	N	A
	WARD	Y	N	A
	HUBER	Y	N	A
	RILEY	Y	N	A

AYE 16 NO 0 ABS ____

Senator Cowles

BUILDING PROGRAM

General Fund Supported Bonding Authorizations
[Paper #251]

Motion:

Move the following:

a. to provide $303,600,000 in general fund supported general obligation bonding, which would result in a reduction of $76,951,400 in the recommended level of Building Commission "other public purposes" bonding for "All Agency" and individual enumerated projects recommended under the 1999-01 state building program;

b. require the Building Commission staff to submit to the Committee, under 14-day passive review, a revised list of projects, exempting correctional facility projects, consistent with the adjusted bonding level. Require that the revised list must be submitted by September 1, 1999, and specify that the Commission cannot authorize any project under the 1999-01 building program that is funded with general fund supported borrowing until the revised list has been approved; and

c. to limit the amount of non-refunding, general fund supported general obligation bonding that can be contained in future Building Commission recommendations for a biennial state building program to 3.0% of the GPR tax revenues received by the state in the even-numbered fiscal year of that biennium.

Note:

The Building Commission's recommendations for the 1999-01 state building program would provide a total of $380,551,400 in general fund supported general obligation bonding for "All Agency" projects and projects that would be enumerated in the 1999-01 state building program. This motion, would reduce that amount by $76,951,400 to $303,600,000, which would limit the new general fund supported general obligation bonding to 3.0% of estimated 1999-00 general fund revenues. Under, the motion, the Building Commission, would be required to develop a revised list of "All Agency" and enumerated projects that would be consistent the revised bonding level, which would not impact correctional facility projects in the 1999-01 building program recommendations. The motion would reduce the Building Commission's "Other Public Purposes" bonding authority. If the revised list would contain projects that would require agency specific bonding authorization changes, subsequent legislation would be required to amend those authorizations.

Further, the motion would limit the amount of new, non-refunding general fund supported general obligation bonding contained in the Building Commission's state building program recommendation to 3.0% of general fund revenues received by the state in the even numbered fiscal year of that biennium. As a result, the amount of general fund supported borrowing that could be contained in the state building program would be allowed to increase as general fund revenues increase.

[Change to Base: $303,600,000 BR]
[Change to Bill: $303,600,000 BR]

MO#________________

	BURKE	Y	N	A
	DECKER	Y	N	A
	JAUCH	Y	N	A
	MOORE	Y	N	A
	SHIBILSKI	Y	N	A
	PLACHE	Y	N	A
1	COWLES	Y	N	A
	PANZER	Y	N	A
2	GARD	Y	N	A
	PORTER	Y	N	A
	KAUFERT	Y	N	A
	ALBERS	Y	N	A
	DUFF	Y	N	A
	WARD	Y	N	A
	HUBER	Y	N	A
	RILEY	Y	N	A

AYE 5 NO 11 ABS ____