



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #230

### Estimated Debt Service Savings (Building Commission)

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#### CURRENT LAW

The Capital Finance Office in the Department of Administration structures refunding bond issues that reduce debt service costs for the state. Capital Finance closed on an issue of refunding bonds (Wisconsin General Obligation Refunding Bonds of 2023, Series 2) on May 11, 2023, that will generate debt service savings over the next 19 years.

Interest earning on moneys deposited to the bond security and redemption fund are applied to debt service payments, which results in a lapse to the general fund from the various GPR sum sufficient appropriations equal to the amount of interest earned.

#### MODIFICATION

Estimate a general fund lapse of -\$860,000 in 2023-24 and -\$550,000 in 2024-25 to reflect GPR savings from the recent issuance of refunding bonds. In addition, estimate a general fund lapse of -\$1,000,000 in each year of the 2023-25 biennium to reflect GPR savings from the use of interest earnings of funds deposited to the bond security and redemption fund.

**Explanation:** On May 2, 2023, the Committee adopted a motion that incorporated debt service estimates as updated to reflect bond issuance through the end of April. To account for the GPR savings from the recent refunding issue, GPR lapses can be increased based on Capital Finance estimates of the savings amounts in the 2023-25 biennium.

Interest earnings on cash balances held in the state investment fund that is managed by the State of Wisconsin Investment Board have increased significantly over the last two years, as the annualized rate of return has increased from 0.05% in July, 2021, to 4.80% in April, 2023. During the course of a year, the bond security and redemption fund will have cash balances that accumulate prior to making semi-annual debt service payments on the state's

outstanding general obligation bonds and variable rate debt. Although these cash balances vary each year, using the lower range of balances in recent years, interest earnings are estimated around \$1.8 million annually, of which an estimated \$1 million annually would be applied to debt service on GPR supported borrowing. In summary, this would increase the balance in the general fund by \$3,410,000.

<b>Change to Base</b>	
GPR-Lapse	- \$3,410,000

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