



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #255

Bonding Authorizations 2001-03 Biennium (Building Program)

[LFB 2001-03 Budget Summary: Page 158-5 #2 (part)]

CURRENT LAW

Through May, 2001, the Legislature has authorized approximately \$12.8 billion of general obligation debt. Of this amount \$10.7 billion in general obligation bonds have been issues through calendar year 2000 and \$2.1 billion remains available for issuance.

BUILDING COMMISSION

Enumerate projects totaling \$1,640,779,300 as part of its building program recommendations. Of this amount, \$1,260,179,300 from all funding sources of enumerated 2001-03 financing authority for: (a) specific enumerated projects (\$992,481,800); and (b) all agency projects (\$267,697,500). (Enumeration and funding authority for the remaining \$380,600,000 of projects for which bonding is recommended for issuance after June 30, 2003, is addressed in a separate Legislative Fiscal Bureau paper.)

Specify that funding for these projects be drawn from the following sources: (a) \$1,052,146,800 from new general obligation bonding authority; (b) \$21,597,500 from general obligation bonding authority that is currently authorized; (c) \$13,445,500 of new revenue bonding authority; (d) \$14,138,000 from agency operating funds; (e) \$38,925,700 from federal funds; and (f) \$119,925,800 from agency gifts, grants and other receipts.

DISCUSSION POINTS

Existing Authorization of General Obligation Bonds

1. 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 or program purposes for which the bonding was authorized.

2. The amount of outstanding indebtedness is each year is not cumulative, but rather represents the principal amount of debt that remains to be repaid on the total amount of general obligation bonds issued at that point in time. For example, as of December, 2000, Wisconsin had approximately \$4.067 billion of general obligation and building corporation bonds outstanding, which represents the principal amount of debt that remained to be paid from issuing approximately \$11.08 billion of general obligation bonds and commercial paper to that date. Table 1 presents a summary of the outstanding state general obligation and building corporation indebtedness as of December, 2000.

TABLE 1

**Outstanding General Obligation and Building Corporation Debt
-- As of December, 2000**

<u>Bonding Category</u>	<u>Amount Outstanding</u>
Tax Supported	
General Fund	\$2,831,448,948
Segregated Funds	<u>51,063,989</u>
Subtotal	\$2,882,512,937
Self-Amortizing	
Veterans' Mortgage Loans	\$785,320,000
University of Wisconsin And Other Minor Categories	<u>399,875,140</u>
Subtotal	1,185,195,140
TOTAL	\$4,067,708,077

3. Principal and interest payments from all funds for general obligation borrowing are estimated to total \$508.6 million in 2002-03 and \$550.7 million in 2002-03. Approximately 71% of the principal and interest amounts owed on state debt in the 2001-03 biennium will be paid from the state's general fund. Since 1988, the level of state indebtedness has grown each year, with the amount of new debt exceeding the amount of debt repaid. Table 2 indicates the growth in state indebtedness since 1987.

TABLE 2
Outstanding Indebtedness 1993 through 2000
(\$ in Millions)

<u>Year</u>	<u>Debt Outstanding</u>	<u>Annual Percent Change</u>
1987	\$2,227.9	
1988	2,180.8	-2.3%
1989	2,230.1	2.3
1990	2,323.5	4.2
1991	2,607.7	12.2
1992	2,734.7	4.9
1993	2,913.4	6.6
1994	2,970.3	2.0
1995	3,078.4	3.6
1996	3,290.0	6.9
1997	3,429.9	4.3
1998	3,564.9	3.9
1999	3,743.5	5.0
2000	4,067.7	8.7

2001-03 General Obligation Bonding Authorizations

4. 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 2001-03 building program recommendations include the authorization of \$1,283,246,800 in general obligation bonding, including: (a) \$745,615,600 of new GPR-supported general obligation borrowing; (b) \$526,711,900 of PR-supported general obligation borrowing; and (c) \$10,919,300 in SEG-supported borrowing.

5. Table 3 indicates how the \$745.6 million in GPR-supported general obligation recommended as part of the 2001-03 state building program compares with past biennial building programs.

TABLE 3

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

<u>Biennium</u>	<u>Authorization</u>
1989-91	\$278.9
1991-93	468.1
1993-95	225.6
1995-97	246.7
1997-99	366.2
1999-01	424.4
2001-03	745.6

6. In addition to the \$745.6 million in GPR-supported general obligation bonding recommended in the state building program, GPR-supported bonding is also proposed for non-building program purposes. These purposes include \$121.4 million in bonding for environmental and water quality improvement. Table 4 identifies the proposed GPR-supported bonding authority increases included in the state biennial operating and capital budgets, excluding refunding authorizations.

TABLE 4

**GPR-Supported General Obligation Bonding (2001-03)
(\$ in Millions)**

	<u>Authorization</u>
2001-03 State Building Program	
2001-03 Authorizations	\$486.4
Out-Year Authorizations	259.2
Bonding in Budget Bill	<u>121.4</u>
Total	\$867.0

7. As indicated Table 4, of the \$867.0 million in proposed GPR-supported bonding authorizations included in the biennial budget fund state building program, \$219.2 million of that authority, primarily associated with the Biostar and agricultural initiative, 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. The \$867.0 million in total general fund supported borrowing would be less than the \$929.0 million of general fund supported borrowing in the 1999-01 biennium when the stewardship program was reauthorized but would be greater than the amounts authorized in prior biennia: \$495.0 million in 1991-93, \$391.7 million in 1993-95, \$338.8 million in 1995-97 and \$558.8 million in 1997-99.

Debt Service Estimates

8. GPR debt service has ranged from 2.88% to 3.38% of GPR tax revenues since 1993-94. Table 5 indicates the GPR debt service as a percentage of GPR tax revenues since 1993-94. Due primarily to the reduction in GPR tax revenues associated with the tax reductions enacted as part of 1999 Act 9, estimated 2000-01 debt service as percentage of GPR tax revenues will match the highest level since 1993-94.

TABLE 5

Annual GPR Debt Service and GPR Tax Revenues (\$ in Millions)

<u>Fiscal Year</u>	<u>GPR Tax Revenues</u>	<u>GPR Debt Service</u>	<u>Debt Service as a % of GPR Tax Revenues</u>
1993-94	\$7,287.6	\$246.5	3.38%
1994-95	7,806.9	250.3	3.21
1995-96	8,209.5	271.2	3.30
1996-97	8,804.0	278.1	3.16
1997-98	9,528.2	285.2	2.99
1998-99	9,984.4	292.8	2.93
1999-00	10,945.9	315.7	2.88
2001-01	10,056.5	340.0	3.38

9. The administration's "Budget in Brief" indicates that the state's debt management is geared at maintaining annual GPR debt service at no more than 4.0% of annual GPR tax revenues, with a target of annual GPR debt service that is between 3.0% and 3.5% of annual GPR tax revenues. This limitation is suggested to ensure that debt service does not consume an increasing share of the state budget. It was also projected at that time that GPR debt service as a percentage of GPR tax revenue would rise to an estimated 3.42% of GPR in 2002-03.

10. However in a May 18, 2001 report to the Legislature titled a Projection of General Obligation Debt Service, DOA Capital Finance indicates that using current estimates of GPR tax revenues, projected debt service payments as percentage of GPR tax revenues will equal 3.42% in 2001-02 and 3.53% in 2002-03. These figures are based on an schedule of estimated issuance of previously authorized, but unissued, bonding authority as well as the estimated issuance of a portion of the bonding proposed under the 2001-03 budget bill and the 2001-03 state building program.

11. 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 the 2001-03 budget and the 2001-03 state building program will not likely have a significant impact on debt service payments in the 2001-03 biennium, but would affect debt service

in the 2003-05 biennium, and thereafter.

12. While the full annual impact will not be seen for several biennia, when all the general fund supported general obligation bonds are issued, the annual general fund debt service associated with the bonding recommended under the Building program could total an estimated \$60 million annually assuming a 20 year repayment schedule. However, some of the bonding will be issued for periods shorter than 20 years which could lead to annual GPR debt service costs in excess of \$60 million over the next ten years.

13. Table 6 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 proposed in the budget bill budget bill and the 2001-03 building program. Table 6 does not include an estimate of the issuance of bond authorizations in 2003-05 and beyond except for those proposed for authorization in advance of the 2003-05 biennium.

TABLE 6

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

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Existing debt service	\$355.0	\$342.4	\$324.4	\$308.3	\$292.8	\$276.2
GPR Debt service on unissued authorized bonding	3.9	36.4	69.0	90.1	98.1	102.1
GPR Debt service on 2001-03 authorized bonding	<u>2.6</u>	<u>12.0</u>	<u>29.2</u>	<u>54.5</u>	<u>80.3</u>	<u>107.1</u>
Total	\$361.5	\$390.8	\$422.6	\$452.9	\$471.2	\$485.4
GPR tax revenues	\$10,575.2	\$11,070.6				
at 3% growth			11,402.7	11,744.8	12,097.1	12,460.1
at 4% growth			11,513.4	11,974.0	12,452.9	12,951.0
at 5% growth			11,624.1	12,205.3	12,815.6	13,456.4
GPR debt service as percent of GPR tax revenues	3.42%	3.53%				
at 3% growth			3.71%	3.86%	3.90%	3.90%
at 4% growth			3.67%	3.78%	3.78%	3.75%
at 5% growth			3.64%	3.71%	3.68%	3.61%

14. In the event that anticipated debt service levels exceed the desired percentage, 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 the budget bill could be impaired. In

addition, since the level of debt service in the 2001-03 biennium is close to 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.

15. 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.

16. 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. While the state currently borrows money at very competitive interest rates, rating agencies have expressed concern about the state's annual financial statements. One rating agency (Moody's), recently listed the state's annual accounting and structural deficits, low general fund ending balances and lack of rainy day funds as factors in revising the outlook on its current rating for Wisconsin general obligation bonds from stable to negative. Another (Standard and Poors) has indicated that the gradual accumulation of financial reserves will be a primary determinant in future rating actions of the state by that agency.

17. If the state's debt levels increase, relative to its 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 one factor behind the DOA's self-imposed 4.0% limit on annual GPR debt service as a percentage of GPR revenues.

18. If the Joint Committee on Finance 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 estimated GPR tax revenues to be received by the state in the even-numbered fiscal year of that biennium. Had this limit been in effect for the 2001-03 biennium, based on the GPR revenue estimates for 2001-02, this would have limited new GPR supported borrowing to \$528.7 million, which would be \$79.1 million less than the amount proposed to be authorized for issuance in the 2001-03 biennium under the biennial budget and state building program.

19. If the Committee wished to impose such a limit for the 2001-03 biennium, the Committee could establish the \$527.8 million GPR supported borrowing cap for the 2001-03 biennium. The cap could apply to both state building program bonding authorizations in the biennium and other program borrowing purposes included in the budget bill. This would be similar to a provision passed by the Joint Committee on Finance during deliberations on the 1995-97 state building program, when that Committee capped bonding at \$375.0 million and directed the Building Commission to submit a revised list of projects to the Joint Finance Committee under a 14-day

passive review process. Under this alternative, the Committee could reduce the Building Commission's other public purpose borrowing by \$79.1 million, and direct the DOA Division of Facilities Development staff to submit a revised list of projects to the Committee for the Committee's second quarterly meeting under s. 13.10 of the statutes in 2001-02. The revised list could be introduced by the Committee as separate legislation.

20. However, placing a limit on the amount of bonding that may be authorized in this and subsequent biennia could reduce the flexibility of this and future Legislatures to meet program and capital budget demands. 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. Approve the Building Commission's recommendations and enumerate those projects and the \$1,260,179,300 in all funds as part of the 2001-03 state building program for which no other action by the Committee has been taken and for which bonding was recommended to be authorized in the 2001-03 biennium. [Enumeration and funding authority for \$380,600,000 of projects, for which bonding could be issued after June 30, 2003, is addressed in a separate LFB paper.]

Alternative 1	All Funds
2001-03 FUNDING (Change to Base)	\$1,260,179,300
<i>[Change to Bill]</i>	<i>\$1,260,179,300]</i>

2. Modify the Building Commission's recommendations by reducing the Building Commission's other public purpose borrowing by \$79.1 million, and direct DOA Division of Facilities Development staff to submit a revised list of projects to the Committee for consideration at the Committee's second quarterly meeting under s. 13.10 of the statutes of 2001-02. The Committee could introduce separate legislation at that time to implement the reduced building program. Enumerate the remaining projects and funding sources for those projects for which bonding is proposed in the 2001-03 biennium and for which no other Committee action has been taken.

A total of \$1,181,079,300 in all funds would be provided, including \$407,315,600 in general fund supported borrowing, \$523,111,900 in self amortizing borrowing and \$20,689,600 in segregated revenue supported borrowing.

Alternative 2	All Funds
2001-03 FUNDING (Change to Base)	\$1,181,079,300
<i>[Change to Bill]</i>	<i>\$1,181,079,300]</i>

3. In addition to Alternative 1 or 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 estimated to be received by the state in the even-numbered fiscal year of that biennium.

4. Take no action. No projects for which bonding is recommended in the 2001-03 biennium would be enumerated and no funding would be provided.

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