



## Legislative Fiscal Bureau

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February 25, 2004

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 909: Refunding Bonds, Medical Assistance, Public Defender, District Attorneys and Bonding Reductions

Assembly Bill 909 was introduced on February 25, 2004, and referred to the Joint Committee on Finance.

### BACKGROUND

#### Refinancing State Debt

The refinancing of debt is a debt management tool that can be used to replace an existing stream of debt service payments with an alternative stream of payments. In refinancing state debt, the state issues new general obligation bonds (the refunding bonds) and uses the proceeds of that bond issue for payments on outstanding debt (the refunded bonds). If the refunded bonds are callable, they are called and paid off shortly after the refunding bonds are issued in a current refunding. If the bonds to be refunded are not callable until a future date, then the proceeds of the refunding issue are held in an escrow account that will make all future debt service payments on the refunded bonds. All aspects of the refunding must comply with federal law.

Generally, debt is refinanced in either an economic refunding or a structural refunding, or a combination of those methods.

Economic Refunding. 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.

Structural Refunding. 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.

### **Medical Assistance Funding**

In a January 15, 2004, letter to Co-Chairs of the Joint Committee on Finance, this office indicated that, if the state is unable to secure any additional federal medical assistance (MA) matching funds for certain initiatives, \$401 million GPR may be needed to fully fund the MA program through June 30, 2005.

The \$401 million consists of the following two items. First, based on a review of 2002-03 actual expenditures and average costs and caseload information through December, 2003, it is estimated that an additional \$90.4 million GPR will be needed to support MA services, compared to the Act 33 estimates.

Second, Act 33 anticipated the receipt of federal MA funds under two new initiatives that have yet to be approved by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS). One of them would provide additional federal revenue from certain services counties provide under MA home-and community-based waiver programs. Funding under the second initiative would be derived from increased payment to local governments for non-institutional services, including home health, case management, emergency transportation and school-based services. The net amount that the state needs to receive under these initiatives to support the MA benefits funding authorized in Act 33 is \$310.6 million.

### **Public Defender and District Attorney Funding**

The Office of the State Public Defender's private bar reimbursement biennial appropriation is currently funded at \$16,510,600 GPR in 2003-04 and \$19,510,600 GPR in 2004-05. Based on actual payments and caseload through December, 2003, and caseload projections through the remainder of the 2003-05 biennium, it is estimated that an additional \$9.2 million GPR will be required to fund the State Public Defender's private bar reimbursement costs.

The District Attorneys' general operations appropriation that supports prosecutor salaries and fringe benefits is currently funded at \$36,284,500 GPR annually for the 2003-05 biennium. It is currently anticipated that there will be shortfall in funding for prosecutor salary and fringe benefit costs.

## **SUMMARY OF THE BILL**

Assembly Bill 909 would increase bonding by \$175 million for refunding of state general obligation debt incurred before June 30, 2005. The bill would specify that these refunding bonds could only be issued prior to June 30, 2005.

The bill would delete \$101.5 million in program revenue supported bonding provided to the State Historical Society for the construction of a \$131.5 million Wisconsin History Center building project enumerated under 2001 Act 16. In addition, the bill would delete \$18.0 million in general fund supported bonding authority provided to the Building Commission under 2003 Act 33 for facility repair and renovation and utility repair projects in all state agencies.

The bill would specify that if the \$175 million in refunding bonds would be issued after the effective date of the bill, \$123.5 million would be transferred to the medical assistance trust fund prior to June 30, 2004. The bill would also provide that the medical assistance trust fund could consist of any amounts transferred from the general fund that result from the issuance of the refunding bonds.

The bill would increase the private bar reimbursement biennial appropriation under the Office of the State Public Defender by \$4,050,000 GPR in 2003-04 and \$5,163,500 GPR in 2004-05. The bill would also provide \$1,000,000 GPR to the District Attorneys' general program operations appropriation in 2003-04.

## **FISCAL EFFECT**

The bill would authorize \$175 million in bonding to refund state general obligation debt incurred prior to June 30, 2005. This refunding would not have to result in true interest cost savings to the state. Rather this refunding authority could be used to carry out a structural refinancing that would refund bonds that otherwise would have been paid off in the 2003-05 biennium. Under the bill, the state could refinance up to \$175 million in general obligation debt principal that is currently scheduled to be made from GPR revenues in May, 2004. As a result, if the entire \$175 million in bonds would be issued, expenditures from GPR sufficient to service debt service appropriations would be reduced by \$175 million in 2003-04. However, because payments on the refunding bonds would begin to occur in 2004-05, general fund debt service payments would increase by an estimated \$8.75 million in 2004-05. Therefore, only \$166.25 million would be available to the general fund in the 2003-05 biennium.

From the \$166.25 million available to the general fund under the debt restructuring transaction, \$123.5 million would be transferred from the general fund to the medical assistance trust fund in 2003-04 to assist with the anticipated shortfall in medical assistance funding in the biennium. The bill would also use a portion of the GPR available under the debt restructuring transaction to increase the private bar reimbursement appropriation of the Office of the State Public Defender by \$4,050,000 GPR in 2003-04 and \$5,163,500 GPR in 2004-05 to fund the State Public

Defender's private bar reimbursement costs in the biennium. In addition, the bill would provide \$1,000,000 GPR available under the debt restructuring transaction to the District Attorneys' general program operations appropriation in 2003-04 to address an anticipated shortfall in funding for prosecutor salary and fringe benefit costs. As a result, after the transfer and the appropriation increases, \$32.5 million GPR associated with debt restructuring would remain in the general fund under the bill, which would result in an estimated gross general fund balance of \$1.4 million at the end of the 2003-05 biennium.

This type of debt restructuring bonding was most recently authorized in 2001 Act 16, which provided refunding authority that resulted in the borrowing of \$75 million to refund GPR supported bonds that otherwise would have been paid off in the 2001-03 biennium. These refunding bonds were specifically authorized by the Legislature for this structural refunding, in order to help balance the 2001-03 budget. While this structural refunding did not extend the maturity of the debt of the refunded bond issues beyond the final maturity dates of the bonds included in the original bond issues, the refunding did extend the average life of the particular bond issues that were refunded. The action also resulted in higher interest costs to the state associated with those bond issues that were refunded than would have been incurred if the bonds were paid off as originally scheduled.

Similarly, if the \$175 million in bonding proposed under the bill were issued, DOA would not extend the maturity of the debt of the particular bond issues refunded beyond the final maturity of the bonds included in the original bond issues. However, carrying out an additional \$175 million in structural refinancing would again result in higher interest costs to the state associated with those bond issues that were refunded than would have been incurred if the bonds were paid off as originally scheduled. It is estimated that the state would pay an additional \$46.1 million in interest over the life of the bonds that would be issued to refund the \$175 million in principal amounts due in 2003-04. These interest amounts would not otherwise have to be paid if the bonds were retired on their currently scheduled maturity date of May, 2004.

Refunding the \$175 million in principal due in May, 2004, would also increase the amounts needed to make debt service payments in future biennia. If the proposed structural refunding occurs, it is estimated that GPR principal and interest costs would be \$52.3 million higher in 2005-06 and \$30.2 million higher in 2006-07 than the amounts that would otherwise be required.

In order to refund the May, 2004, principal amounts, moneys would have to be available prior to March 15, 2004, the date when semi-annual debt service appropriation assessments are required to be made. However, legislation would need to be passed in advance of that date in order to provide DOA Capital Finance with sufficient time to carry-out the refunding transaction.

The bill would delete \$18.0 million in general fund supported bonding for repair and renovation projects to be carried out at various state agencies over the few years. This would represent a 10% reduction in the GPR supported bonding provided for these projects under 2003 Act 33. Deleting this bonding could reduce GPR debt service by an estimated \$1.7 million annually beginning in the 2005-07 biennium. However, if this bonding reduction results in a

backlog of such projects, the 2005-07 building program may need to be larger than under current law.

The bill would also delete \$101.5 million in program revenue supported bonding for the State Historical Society's Wisconsin History Center. As a result, \$30.0 million would remain available for Wisconsin History Center project.

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