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GPR Supported Debt and Bonding Overview (Building Program)

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This paper discusses the use of bonding by the state and the existing level of state general obligation bonding debt. Specifically, the paper deals with the amount of GPR supported general obligation bonds. In addition, information is provided on the amount of existing GPR supported bonding that may be issued in the 2013-15 biennium, as well as the amount of such bonding included under Assembly Bill 40 (AB 40) and under the Building Commission's 2013-15 biennial state building program recommendations. Finally, the paper discusses the amount of GPR debt service that will repaid in the 2013-15 biennium and into the future.

Use of Bonding to Finance Projects and Programs

In April, 1969, voters approved an amendment to the Wisconsin Constitution authorizing the state to issue debt directly. The amendment enabled the state to "acquire, construct, develop, extend, enlarge or improve land, waters, property, highways, buildings, equipment or facilities for public purposes." The language was deliberately broad, requiring only that bonding be intended to affect physical property directly and be undertaken for public purposes. In April, 1975, another constitutional amendment was passed, specifically permitting the state to issue general obligation bonds for veterans' housing loans. In April, 1992, a further constitutional amendment authorized the use of general obligation bonds for railways.

State governments have financed their capital project and programmatic requirements using three options: paying for projects with cash, borrowing for projects and repaying the resulting debt over time, and leasing facilities. 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, program-related bonding programs. The Building Commission, with the assistance of the Department of Administration's Capital Finance office then issues the bonds to fund the projects or program purposes for which the bonding was authorized.

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. 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. Also, if state revenues run low, new capital projects may be delayed or dropped. Further, using exclusively cash to fund building and road projects could require a tax increase to fund government financing requirements, which can be politically difficult.

When current revenues cannot support state capital improvement needs, states have chosen to issue bonds to finance the projects. Long-term borrowing for capital construction has several advantages: (a) costs can be spread over the useful life of projects, with future users of projects sharing those costs; (b) citizens can derive near-term benefits from capital expenditures; (c) higher taxes to provide necessary capital facilities may be avoided; and (d) 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.

State GPR Supported General Obligation Debt

The state's outstanding debt 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, 2012, Wisconsin had approximately $8.0 billion of general obligation bonds and commercial paper obligations outstanding, which represents the principal amount of debt that remained to be paid from issuing approximately $21.6 billion of general obligation bonds and commercial paper to that date. Table 1 presents a summary of the outstanding state general obligation indebtedness as of December, 2012.

TABLE 1

Outstanding General Obligation Debt -- As of December, 2012

Bonding Category	Amount Outstanding
Tax Supported	
General Fund	$5,314,548,734
Segregated Funds	835,469,348
Subtotal	$6,150,018,082
Self-Amortizing	
Veterans' Mortgage Loans	$120,820,000
University of Wisconsin And Other Categories	1,743,867,439
Subtotal	$1,864,687,439
Total	$8,014,705,521

As shown in Table 1, outstanding GPR supported debt, made up $5.31 billion, or 66.3%, of the state's $8.0 billion in outstanding general obligation debt. The level of state indebtedness has grown over time, which occurs because the amount of new debt that has been issued each year has exceeded the annual principal amount of debt repaid. Table 2 indicates the growth in GPR supported debt since 2002.

TABLE 2

Outstanding GPR Supported Debt
($ in Millions)

Year	Debt Outstanding	Annual Percent Change	Cumulative Percent Change
2003	$3,302.0		
2004	3,225.3	-2.3	-2.3
2005	3,856.3	19.6	16.8
2006	4,080.5	5.8	23.6
2007	4,064.5	-0.4	23.1
2008	4,154.5	2.2	25.8
2009	4,302.6	3.6	30.3
2010	4,654.2	8.2	41.0
2011	4,919.2	5.7	49.0
2012	5,314.5	8.0	60.9

Additional GPR Supported Debt Available in 2013-15

The additional amount of GPR supported debt that would be authorized in the 2013-15 biennium would be the sum of the following: (a) bonding included in the 2013-15 state building program; and (b) program-related bonding amounts included in AB 40, the biennial budget bill.

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 Building Commission's 2013-15 building program recommendations include the authorization of $1,137.6 million in new general obligation bonding, of which $510.8 million would be GPR supported bonding. Table 3 indicates how the $510.8 million in GPR supported bonding authorizations under the Building Commission's recommendations for the state building program compares with past biennial building programs.

TABLE 3

GPR Supported General Obligation Bonding Authorized in Biennial State Building Programs*
($ in Millions)

Biennium	Authorization
1995-97	$282.9
1997-99	366.2
1999-01	425.4
2001-03	709.8
2003-05	247.2
2005-07	499.1
2007-09	412.3
2009-11	523.6
2011-13	420.6
2013-15	510.8

*Amounts shown include bonding amounts authorized in each biennium rather than the biennium in which the bonding becomes available for issue.

In addition to the GPR supported bonding being recommended by the Building Commission to fund 2013-15 state building program projects, the Governor's biennial budget recommendation also includes bonding authorizations for other program purposes. AB 40, as introduced, would authorize $211.1 million in GPR supported bonding, which would be available in the 2013-15 biennium for the following non-building program purposes: (a) $7.1 million for the environmental improvement fund's safe drinking water program; (b) $4.0 million in DNR's dam safety projects funding; and (c) $200 million for the Department of Transportation Zoo Interchange highway project.

In an earlier action, the Committee deleted $62.6 million in GPR supported bonding that could have otherwise been available in the 2013-15 biennium: (a) $42.9 million associated with the environmental improvement fund's clean water fund improvement program; (b) $1.7 million for the safe drinking water program; and (c) $18.0 million for the stewardship program (an additional $50.0 million reduction in the stewardship program bonding would occur after the 2013-15 biennium). Therefore, the net increase in program-related, GPR supported bonding that would be available in the 2013-15 biennium under the bill and the Committee's actions to date would be $148.5 million.

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 10 years, the state has ranged between 12.8% and 25.3% 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 33.4% of the allowable net indebtedness. Therefore, the state's annual debt issuance has been well under the limits on debt issuance established in the Constitution. Given the proposed level of GPR supported bonding that would be available in the biennium, the state will likely remain well below the constitutional debt limits.

GPR Debt Restructuring

In recent biennia, due to budgetary constraints on the state's general fund, the state has deferred paying a portion of the GPR principal on its outstanding GPR supported debt. These actions had the effect of lowering the amount of GPR debt service paid in a specific year. However, debt service costs in subsequent years are higher than they otherwise would be because these "rolled over" principal amounts are again scheduled to be repaid. Also, until these principal amounts are repaid, the state's incurs additional interest on these unpaid amounts.

AB 40 does not include any additional restructuring. However, the debt service payments due in the biennium reflect the repayment of a significant amount of past restructured principal, the largest portion of which is associated with the $368.2 million in principal payments that were restructured in 2011-12.

Debt Service on GPR Supported Bonding

Historically, the state's debt management has been oriented toward maintaining annual GPR debt service at no more than 4.0% of annual GPR tax revenues. This policy is intended to ensure that debt service does not consume an increasing share of the state budget and add to state out-year spending commitments. In developing its building program recommendations, the Building Commission generally considers the impact bonding authorizations would have on the GPR debt service to GPR revenues ratio. However, this impact is not a good measure for determining the amount of bonding to recommend in a biennial building program, because much of the bonding authorized in one biennium will not fully impact state GPR debt service payments until the following biennium at the earliest. For example, the full debt service impact of any bonds issued as result of the Building Commission's 2013-15 building program recommendations would not fully affect the GPR debt service to revenue ratio until the 2015-17 biennium at the earliest.

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) estimated debt service on new bonding authorizations being requested for the 2013-15 biennium. Any increased debt service amounts associated with these bonding amounts will be partially offset by old debt being retired during the period the bonds remain outstanding.

Table 4 provides an estimate of GPR debt service through the 2015-17 biennium based on the amount of existing debt, an estimate of the amounts of currently authorized debt that may be issued, and the anticipated issuance of the bonding proposed under AB 40, as modified by the Committee's actions and the 2013-15 state building program. As indicated in the table, the GPR bonding amounts in AB 40 and those amounts recommended in the 2013-15 state building program would not impact GPR debt service amounts significantly until the 2015-17 biennium.

TABLE 4

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

	2013-14	2014-15	2015-16	2016-17
Existing debt service*	$734.9	$678.7	$630.1	$526.5
GPR debt service on unissued authorized bonding	3.1	23.5	48.4	62.7
GPR debt service on 2013-15 authorized bonding	0.0	6.8	30.9	52.4
Total	$738.0	$709.0	$709.4	$641.6
GPR tax revenue estimates (current law)	$14,307.5	$14,819.0		
at 2% growth			$15,115.4	$15,417.8
at 3% growth			15,263.6	15,721.5
at 4% growth			15,411.8	16,028.3
GPR debt service as percent of GPR tax revenues	5.16%	4.78%		
at 2% growth			4.69%	4.16%
at 3% growth			4.65	4.08
at 4% growth			4.60	4.00

* Includes offsets to GPR debt service with other sources.

As indicated in Table 4, the ratio of GPR debt service to GPR revenues is estimated to decrease from 5.16% in 2013-14 to a range of 4.60% to 4.69% in 2015-16 or 4.00% to 4.16% in 2016-17, under the illustrated levels of growth in revenues. The recent rise in this ratio has been due primarily to the restructured GPR principal amounts that have been deferred in recent years having to be repaid, but those repayments will subside from the levels that will occur in 2013-14.

State Bond Ratings

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 of the cumulative debt levels of the state. Wisconsin's bond issuance and debt service levels are considered in the high-moderate range by rating agencies. Rating agencies have generally cited concerns about the state's finances in their ratings of the state general obligation debt. In the past, they have identified the state's lack of general fund surpluses, the lack of a significant reserve or "rainy day" fund, and the use one-time revenues to fund ongoing expenditures as credit concerns. Also, concerns about the state's ongoing accounting deficit under generally accepted accounting principles (GAAP) continue to exist. The GAAP deficit generally reflects the state's year end general fund balance under its statutory basis of accounting adjusted for revenue and expenditure items attributable to the current fiscal year, which is exacerbated when annual general fund surpluses are low, or do not exist. For example, in 2011-12, despite the state having had a positive balance of $342.1 million using the statutory basis of accounting, when presented using GAAP, the state had a GAAP deficit of $2.21 billion. However, the GAAP deficit is down from nearly $3.0 billion in 2010-11.

If bonding rating agencies determine that the state's debt levels are increasing faster than the state's relative ability to repay that debt, the state could have to pay higher interest rates and eventually the state's bond rating could suffer. However, due to current low market interest rates, the state's debt levels and the state's bond rating have not yet significantly impacted the state's cost of borrowing.

Summary

Determining the level of new GPR supported bonding in a biennium involves taking into account several issues. Those who place more concern on the state's increasing GPR supported debt contend that the state should limit the level of new, GPR supported bonding authorized in the biennium. They would note that GPR debt levels have risen in recent years faster than the state's ability to make the GPR debt service payments, as evidenced by the levels of debt restructuring that have been carried out over the past 10 years. Others who give more weight to the use of debt may contend that additional GPR borrowing is warranted in order to maintain vital program priorities and provide a boost to the state's construction economy.

If the Committee is concerned about the about the rising level of the state's GPR supported debt, as well as, the state's ability to repay that debt in future, the Committee could: (a) reduce the amount of existing bonding that is authorized (which the Committee has already done with regard to the stewardship program), which would limit the amount of new debt that could be issued for those purposes; (b) use some of the increased GPR revenues associated with the recent general fund tax revenue and expenditure estimates to cash finance transportation or building program projects in the biennium instead of bonding for those projects; (c) reduce the amount of program bonding included under AB 40, which would most likely mean a reduction in GPR supported bonding for the Department of Transportation's Zoo Interchange project; or (d) reduce the GPR supported bonding recommended in the 2013-15 state building program.

Proponents of GPR bonding backed programs, especially the state's building program and highway construction program, contend that having a robust state highway program and state building program has a positive impact on construction-related employment and the state's economy as a whole. Others contend that the projects included in the state building program are needed to update and maintain the state's facility infrastructure, and that delaying these necessary projects would only cost the state more in the future due to the level of construction inflation. Also, capital financing rates are at historic lows, which lessens the overall cost of borrowing and makes borrowing for capital improvement projects more advantageous at this time.

Under its 2013-15 state building program recommendations, the Building Commission is recommending $510.8 million in GPR supported bonding be available for issue in the 2013-15 biennium. This is a higher level than the $420.6 million average amount of GPR supported bonding that was made available in the past five state building programs.

In making decisions regarding the proper level of GPR supported bonding, the Committee should weigh the positive impacts of funding the recommended 2013-15 state building program and the state's GPR-funded programs against the ongoing concerns about the level of state GPR supported debt that currently exists. The Committee may also want to consider the impact that providing the recommended GPR supported bonding levels will have on the ability of the state to make increasing GPR debt payments going forward while continuing to fund GPR program costs within existing revenues in those same years.

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