Governor's Capital Expenditure Cash Fund proposal – Summary and questions

Joint Fiscal Office, 01/27/2022 Updated on 2/18/2022

What has been requested?

1. **The Administration is asking for the creation of a capital expenditures cash fund (CECF) to use in lieu of some capital bill borrowing**
    a. Cash fund would need to be created (Institutions committees)
    b. Money would need to be transferred into fund (Appropriations committees)
        i. Administration has asked for $6,525,000 in FY23
            1. $6,200,000 one-time General Fund
            2. $325,000 in interest savings (see proposal 2)
    c. Appropriations would need to be made from fund (Institutions and Appropriations)
        i. Administration has asked to spend $6,288,000 in FY23
    d. Future funding would be directed through statute
        i. 4% of prior year General Fund appropriations minus general obligation debt service in budget year
        ii. Example – In 2023 session the amount would be 4% of FY23 GF approps. minus FY24 GO debt service

    Potential questions
    - *What would happen in a really good General Fund year?*
    - *What would happen in a really bad General Fund year? With proposed allocation construct how would a negative allocation work?*
    - *Potential for floor/ceiling on amounts going to fund?*
    - *How will CDAAC and rating agencies react? What is more impactful – the fund or the statutory allocation?*
    - *Does GF percent allocation need to be in statute? Or annual rate recommendation from CDAAC or someone else?*
    - *Who is best suited to administer fund?*
    - *Does GO debt service include all funds – General, Transportation, other?*

2. **The Administration is asking for $20 million one-time to pay down callable bond debt**
    a. Appropriations would need to be made (Appropriations committee)
        i. Estimated $325,000 in interest savings in FY23 ($1.96m total estimated interest savings through FY29)
        ii. Interest savings would reduce debt service in future years (through FY29) which would increase funding to new cash fund – if approved
        iii. No need to pay principle in future years (through FY29), which reduces overall debt service and would increase funding to new cash fund

    Potential questions
    - *How would overall picture be impacted with more/less one-time bond buybacks?*
    - *How would cash fund be impacted if this were not approved?*

3. **The Administration is asking for new language in statute to restrict the use of extra bonding capacity resulting from a bond premium to 50% of the additional capacity.**
    a. Statutory language would need to go into capital bill or big bill (Institutions and Appropriations)
    b. What is bond premium? As simply as possible, when interest rates are low some bonds are issued with higher negotiated rates. Investors will pay more for these negotiated bonds up-front (resulting in bond premium) but we pay higher annual rates for the term of the bonds
    c. Unused premium would reduce the need to issue future debt
        i. The 2021 bond issuance resulted in $16.7m in bond premium. This additional bonding capacity isn't fully allocated in the Governor's capital budget adjustment request. If it remains unspent then fewer bonds need to be issued in the future.

Potential questions

- *What is the likelihood of bond premiums in our future issuances?*
- *Maybe ask for a presentation from Administration/Treasurer regarding the mechanics of bond premium*

4. **The Administration is asking for BGS engineering costs to move from the capital bill to the big bill**
    a. Appropriations would need to go into the big bill to pay for these costs, approx. $3.7m in FY23 and growing in future years due to salary/benefits changes (Appropriations)
    b. Savings in capital bill would reduce pressure to bond for full authorized amount (see #5 below) and/or use full future bond premiums (see #3 above)
    c. This would become an ongoing General Fund pressure

5. **The Administration is asking that future capital bill spend $7 million less on an annual basis**
    a. Wouldn't be a statutory requirement just a consideration for future governors and legislatures
    b. This will be the big driver for future monies to the capital cash fund
        i. Each year we do not borrow that extra $7m the saved principal and interest payments are not a part of the annual debt obligation, which allows for more money to go into cash fund (in good genera fund years)
    c. This number could potentially be reduced in years with unused bond premium

Potential questions

- *With all of the moving pieces between proposals 1-5, what is the likelihood that everything transpires as has been proposed?*