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

Joint Fiscal Office, 01/27/2022

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

   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 that restricts use of future bond premiums on capital projects to only 50% of the amount of the premium
    a. Language would need to go into capital bill or big bill (Institutions and Appropriations)
    b. Interest and principal savings on unused premium would help capitalize cash fund
        i. Administration has left $10.2m of the 2021 issuance bond premium out of the capital bill adjustment. Estimated $510,000 in premium savings annually plus interest savings, which varies

Potential questions

- *What happens to bond premium if it isn't used? Do we call the bonds back in that amount, or invest the money, or something else?*
- *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 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)

Potential questions

- *With all of the moving pieces between proposals 1-4, what is the likelihood that everything transpires as has been proposed?*