



Legislative Fiscal Bureau

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TO: Representative Gordon Hintz
Room 201 West, State Capitol

FROM: Emma Drilias, Fiscal Analyst

SUBJECT: Interest Costs Associated with State General Obligation Debt Restructuring Actions
Taken Since 2010

As requested, this memorandum discusses the interest costs associated with the actions taken by the state to restructure portions of its current general obligation bond debt principal or commercial paper debt in 2010-11, 2011-12, 2014-15, and 2015-16. Also provided is the estimated outstanding principal and interest of these restructuring actions as of 2019.

The state has restructured portions of its outstanding general obligation debt that was otherwise due by either issuing refunding bonds authorized by the Legislature or by deferring a short-term, variable rate borrowing (commercial paper) principal payment that was scheduled to be made. The authority to issue refunding bonds to restructure state debt was authorized by the Legislature. When issued, the proceeds from those bonds were used to pay off a portion of the general obligation debt principal that was currently due. The state then repays that newly-issued bond principal under an amortization structure laid out in the refunding bond issue. Conversely, when the state has restructured its debt by deferring a principal payment on its outstanding general obligation, commercial paper principal, no legislative authorization was required. However, the fiscal effect of the reduced debt service expenditures associated with such transactions were often (except for the May, 2016, action) incorporated in a biennial budget or separate legislation.

Under these transactions, despite the payment delay, the state is not in default, but rather, the state has simply deferred a voluntary commercial paper principal payment due and then re-amortized that principal over a period of several years. The principal amount of debt restructured remains outstanding over a longer period, and the state incurs additional interest until the outstanding principal is repaid. While restructuring outstanding principal to reduce current debt service costs reduces expenditures in the current budget, the additional interest amounts, as well as the restructured principal, impact future budgets.

Table 1 lists the principal and estimated net interest costs associated with the debt restructuring

actions carried out in 2010-11, 2011-12, 2014-15, and 2015-16, after factoring in any premiums the bonds issued to restructure that debt. The table uses the actual interest costs laid out in the official statement of each debt restructuring bond issue and assumes a 0.5% rate on the restructured commercial paper principal.

TABLE 1

Total Principal and Net Interest of Recent Debt Restructuring Actions from Issuance to Final Payment Based on the Repayment Schedule at the Time of Issuance (\$ in Millions)

<u>Restructuring Action</u>	<u>Principal</u>	<u>Net Interest</u>
2011 General Obligation Bond Series 1	\$190.1	\$44.3
2011 General Obligation Bond Series 2	45.4	9.4
2012 General Obligation Bond Series 1	218.0	28.6
2012 Commercial Paper	104.8	1.6
2015 Commercial Paper	108.0	2.5
2016 Commercial Paper	<u>101.0</u>	<u>2.3</u>
Total	\$767.3	\$88.7

Table 2 lists the estimated principal and interest outstanding as of 2019 for each of these debt restructuring actions. These amounts are based on the repayment schedules established at the time the restructuring actions occurred. The final principal and interest payments were scheduled to be made in 2031 for 2012 General Obligation Bond Series 1.

TABLE 2

Outstanding Principal and Net Interest from July 1, 2018, through Final Payment of Recent Debt Restructuring Actions Based on the Repayment Schedule at the Time of Issuance (\$ in Millions)

<u>Restructuring Action</u>	<u>Principal</u>	<u>Net Interest</u>
2011 General Obligation Bond Series 1	\$97.1	\$13.2
2011 General Obligation Bond Series 2	30.7	4.3
2012 General Obligation Bond Series 1	88.7	15.5
2012 Commercial Paper	0.0	0.0
2015 Commercial Paper	75.4	1.0
2016 Commercial Paper	<u>75.8</u>	<u>1.3</u>
Total	\$367.7	\$35.3

As mentioned earlier, the above tables list the net interest costs after accounting for the bond premiums associated with each debt restructuring bond issue indicated in the tables. When only a portion of a refunding bond issue was associated with the debt restructuring, the premiums were apportioned to the restructuring transaction in the same portion that that transaction made up of the total refunding bond issue. Bond premiums result when the state issues bonds with coupon rates that result in above market yields because the coupon rates on some or all of the bonds are at higher than the market at the time of the bond issue. When refunding bonds are issued at a premium, the state either receives monies at the time of sale in addition to principal amount of the bond issue or the state reduces the principal amount borrowed and uses the bond premiums in lieu of borrowing the full amount of proceeds needed from the bond issue. However, for budgeting purposes, it should be noted that the state will pay annual interest amounts on the outstanding principal of a bond issue at the above market coupon rates.

In considering the effect of these restructuring actions on the \$588.5 million ending balance in the general fund as of June 30, 2018, two factors warrant consideration. First, while the general fund balance was increased by the amount of principal payments that were delayed under these transactions, principal and interest payments have been made on these obligations since the time of issuance. As shown in Tables 1 and 2, \$399.6 million of principal and \$53.4 million in interest were scheduled to be paid by June 30, 2018. As a result, initial principal savings of \$767.3 million are reduced to \$314.3 million by June 30, 2018. Second, since these transactions were made, the state has issued a number of economic refunding bonds, which could affect interest costs and the timing of principal payments. For purposes of this memorandum, the original projected repayment schedules and interest rate estimates are used throughout.

I hope this information is helpful. Please contact me if you have any questions.

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