

**TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING  
COMMITTEE  
March 4, 2013**

*Benjamin Barnes  
Secretary  
Office of Policy and Management*

Testimony Supporting Senate Bill No. 841

AN ACT IMPROVING THE FISCAL DISCIPLINE OF THE STATE BY ELIMINATING THE  
ACCUMULATED GAAP DEFICIT AND RESTRUCTURING ECONOMIC RECOVERY NOTES

---

---

Senator Fonfara, Representative Widlitz and distinguished members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 841, AN ACT IMPROVING THE FISCAL DISCIPLINE OF THE STATE BY ELIMINATING THE ACCUMULATED GAAP DEFICIT AND RESTRUCTURING ECONOMIC RECOVERY NOTES.

The proposed FY 2014 and FY 2015 budget continues the goal of implementing Generally Accepted Accounting Principles which began with the issuance of Executive Order #1. Yet this change comes amidst an economy that is still struggling to gain traction after the worst recession since the Great Depression. Moreover, this change is not without its costs, including the \$55.9 million annual incremental cost of converting to GAAP as well as an estimated \$79.8 million to pay off, over 15 years, the cumulative GAAP deficit which totals approximately \$1.2 billion.

The Governor's proposed biennial budget takes a two pronged approach in addressing our GAAP costs and liabilities. First, the Governor's budget proposal appropriates the \$55.9 million GAAP incremental cost in the various agencies of the state. Secondly, the legislation before you today proposes an innovative financing mechanism to eradicate up to \$750 million of our cumulative GAAP deficit at a time when interest rates are at historic lows. This low cost financing will have the additional benefit of improving the state's cash position, which has been weakened by the deep recession and prolonged recovery, not to mention the numerous one-shot remedies employed prior to 2011. This financing would reduce if not eliminate the need for any temporary cash flow borrowing by the Treasurer. The structure of this financing will permit the state to make the first payment on bonds beginning in FY 2016, but firmly commits the state to addressing this large balance sheet deficit. Finally, the remainder of the cumulative GAAP deficit would be covered by an annual appropriation totaling \$29.8 million over a 15 year period. In order to further enhance the affordability

of converting to GAAP, the Governor is also proposing in this bill to restructure the state's outstanding Economic Recovery Notes (ERNs) that were issued to address the FY 2009 budget deficit. By taking advantage of today's low interest rates, this restructuring would continue to make ERN payments in FY 2014 and FY 2015, but at a reduced level, and would extend repayment of the remaining balance by two additional fiscal years. This will reduce the state's ERN debt service costs in FY 2014 and FY 2015 by \$150 million annually.

The following tables help to illustrate the Governor's proposal.

| <b>Cumulative GAAP Deficit</b><br>(in millions) |                |
|---|----------------|
|   | <u>Amount</u>  |
| Deficit, June 30, 2011, audited                 | \$ 1,748.9     |
| Deficit, Estimate as of June 30, 2012           | \$ 1,142.0     |
| Additional Estimated Amount for FY 2013         | <u>55.0</u>    |
| Deficit, Projected for June 30, 2013            | \$ 1,197.0     |
| <u>Governor's Budget Proposal</u>               |                |
| Deficit, Projected for June 30, 2013            | \$ 1,197.0     |
| GAAP Bonds                                      | <u>(750.0)</u> |
| Net Remaining Deficit to be Amortized           | \$ 447.0       |
| # of Years to Amortize                          | 15             |
| Annual Amortization Amount                      | \$ 29.8        |

| <b>GAAP Financing Summary</b><br>(in Millions) |                  |                              |            |                     |                   |                              |            |            |  |
|--|------------------|------------------------------|------------|---------------------|-------------------|------------------------------|------------|------------|--|
| Fiscal Year                                    | Current          |                              |            | Governor's Proposal |                   |                              |            |            |  |
|  | ERN Debt Service | Budget for GAAP Amortization | Total      | ERN Debt Service    | Bond Debt Service | Budget for GAAP Amortization | Total      | Difference |  |
| 2014   | \$ 208.4         | \$ 79.8                      | \$ 288.2   | \$ 58.4             | \$ -              | \$ 29.8                      | \$ 88.2    | \$ (200.0) |  |
| 2015   | 208.4            | 79.8                         | 288.2      | 58.5                | -                 | 29.8                         | 88.3       | (199.9)    |  |
| 2016   | 208.4            | 79.8                         | 288.2      | 168.8               | 72.0              | 29.8                         | 270.6      | (17.6)     |  |
| 2017   | -                | 79.8                         | 79.8       | 184.9               | 72.0              | 29.8                         | 286.7      | 206.9      |  |
| 2018   | -                | 79.8                         | 79.8       | 184.9               | 72.0              | 29.8                         | 286.7      | 206.9      |  |
| ...  |                  |                              |            |                     |                   |                              |            |            |  |
| 2028   | -                | 79.8                         | 79.8       | -                   | 72.0              | 29.8                         | 101.8      | 22.0       |  |
| Total  | \$ 625.2         | \$ 1,197.0                   | \$ 1,822.2 | \$ 655.5            | \$ 936.0          | \$ 447.0                     | \$ 2,038.5 | 216.3      |  |

Note: GAAP Bond Debt Service and GAAP Amortization continues until FY 2028.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request the Committee support this bill.