

Debt Service - State Treasurer

OTT14100

Budget Summary

Account	Actual FY 19	Actual FY 20	Appropriation FY 21	Governor Recommended		Legislative	
				FY 22	FY 23	FY 22	FY 23
Other Current Expenses							
Debt Service	2,224,892,153	1,870,494,945	1,967,208,185	1,989,627,549	2,076,445,782	1,963,027,549	2,010,045,782
UConn 2000 - Debt Service	207,263,430	211,812,412	221,406,539	209,728,356	223,746,381	209,728,356	223,746,381
CHEFA Day Care Security	4,054,481	3,803,665	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000
Pension Obligation Bonds - TRB	118,400,521	118,400,521	118,400,521	203,080,521	306,680,521	203,080,521	306,680,521
Grant Payments to Local Governments							
Municipal Restructuring	24,343,404	45,666,625	56,314,629	54,677,710	54,098,049	54,677,710	54,098,049
Agency Total - General Fund	2,578,953,989	2,250,178,168	2,368,829,874	2,462,614,136	2,666,470,733	2,436,014,136	2,600,070,733
Debt Service	642,214,572	651,264,370	767,938,231	779,001,723	851,220,480	770,501,723	842,720,480
Agency Total - Special Transportation Fund	642,214,572	651,264,370	767,938,231	779,001,723	851,220,480	770,501,723	842,720,480
Total - Appropriated Funds	3,221,168,561	2,901,442,538	3,136,768,105	3,241,615,859	3,517,691,213	3,206,515,859	3,442,791,213

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 22	FY 23	FY 22	FY 23	FY 22	FY 23

Policy Revisions

Reflect Expected Debt Service Savings from Improved Market Conditions

Debt Service	-	-	(26,600,000)	(56,400,000)	(26,600,000)	(56,400,000)
Total - General Fund	-	-	(26,600,000)	(56,400,000)	(26,600,000)	(56,400,000)
Debt Service	-	-	(8,500,000)	(8,500,000)	(8,500,000)	(8,500,000)
Total - Special Transportation Fund	-	-	(8,500,000)	(8,500,000)	(8,500,000)	(8,500,000)

Background

Estimates for future expected debt service requirements account for results of recent bond sales and changes in market conditions, including shifts in the borrower's market standing. Connecticut's credit rating was upgraded by all four major credit rating agencies in the Spring of 2021, which led to reduced borrowing costs for bonds issued to end FY 21. The improved credit ratings are also expected to result in lower borrowing costs on future bond sales going forward.

Legislative

Reduce General Fund debt service by \$26.6 million in FY 22 and \$56.4 million in FY 23 and Special Transportation debt service by \$8.5 million in each of FY 22 and FY 23 to reflect improved borrowing market conditions.

Maintain Current Treatment of General Obligation Bond Premium

Debt Service	(20,000,000)	(50,000,000)	(20,000,000)	(60,000,000)	-	(10,000,000)
Total - General Fund	(20,000,000)	(50,000,000)	(20,000,000)	(60,000,000)	-	(10,000,000)

Background

Bond premium represents additional funding investors provide when bonds are issued in order to secure desired terms, and result in additional funds being made available to the State beyond the underlying value of the bonds. In general, bond premium can either be used for projects - reducing the amount of bonds that need to be issued - or can be used to offset a portion of debt service costs for two to three years after the bonds are issued. Bonds backed by the Special Transportation Fund and bonds for the UConn 2000 program both use premium for project costs.

As of the start of the 2021 session, statute (C.G.S. 3-20j) requires that premium generated from the state's most common General Obligation (GO) bonds, tax exempt fixed rate bonds, be used to offset General Fund debt service costs for bonds issued prior to FY 22 and that premium related to GO bonds issued in FY 22 and beyond would be made available for projects.

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 22	FY 23	FY 22	FY 23	FY 22	FY 23

Premium proceeds are dependent on market conditions and the state's credit position. In recent years, bond premium has been used to reduce approximately \$80 million to \$125 million of General Fund debt service costs. Recent positive bond issuance results have led to an anticipated \$140 million of offset debt service costs in FY 22 from bonds issued in or before FY 21.

Governor

Reduce debt service appropriations by \$20 million in FY 22 and \$50 million in FY 23 to reflect in-biennium savings as a result of changing statutory requirements regarding the continued use of premium for current debt service requirements. The change was proposed in Governor's Bill 6443 (*AAC Revenue Items to Implement the Governor's Budget*) Sec. 25. The Governor proposed change would eliminate the requirement that bond premiums be used for projects beginning in FY 22, along with eliminating a provision related to use of savings associated with Credit Revenue bonds.

Legislative

Reduce debt service appropriations by \$20 million in FY 22 and \$60 million in FY 23 to reflect in-biennium savings as a result of delaying statutory requirements regarding the continued use of premium for current debt service requirements.

Section 2 of PA 21-2 JSS, the budget implementer, delays the use of bond premium for projects until FY 24.

Adjust Debt Service Based on Changes to Bond Issuance

Debt Service	(4,800,000)	(2,800,000)	(4,800,000)	(2,800,000)	-	-
Total - Special Transportation Fund	(4,800,000)	(2,800,000)	(4,800,000)	(2,800,000)	-	-

Background

The biennial budget proposal baseline projections assume annual Special Tax Obligation (STO) bond issuances of \$875 million annually.

Governor

Reflect savings of \$4.8 million in FY 22 and \$2.8 million in FY 23 based on change in anticipated STO bond issuance schedule to \$800 million in FY 22 and \$925 million in FY 23.

Legislative

Same as Governor

Current Services

Reflect Debt Service Repayment Requirements

Debt Service	42,419,364	159,237,597	42,419,364	159,237,597	-	-
UConn 2000 - Debt Service	(11,678,183)	2,339,842	(11,678,183)	2,339,842	-	-
Municipal Restructuring	(1,636,919)	(2,216,580)	(1,636,919)	(2,216,580)	-	-
Total - General Fund	29,104,262	159,360,859	29,104,262	159,360,859	-	-
Debt Service	15,863,492	86,082,249	15,863,492	86,082,249	-	-
Total - Special Transportation Fund	15,863,492	86,082,249	15,863,492	86,082,249	-	-

Background

Debt service reflects the state's obligation to make payments on services and goods provided in previous years. General Fund-backed bond spending increased from \$1.5 billion in FY 13 to a peak of \$2.4 billion in FY 16. Spending has steadily declined since the peak, with FY 20 spending at \$1.6 billion. Bond spending in previous years relates to debt service payments in the current biennium, as payments are made on issued bonds. In FY 22, over 90 percent of the projected baseline debt service payment is to repay bonds that were issued prior to FY 21.

UConn 2000 debt service is expected to decrease from FY 21 appropriations due to three factors: 1) improved market borrowing rates in the most recent UConn 2000 bond issuance; 2) scheduled declines in new authorization for the UConn 2000 program, and 3) reconfigured UConn 2000 bond issuance schedule that delays some issuance based on programmatic cash flow. Debt service costs for the program are expected to plateau around FY 24. The program includes new bond authorizations annually through FY 27.

The municipal restructuring debt service changes reflect the contractually adopted debt repayment schedule, which peaked at \$56.3 million in FY 21 and declines through the rest of the contract period (FY 36).

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 22	FY 23	FY 22	FY 23	FY 22	FY 23

Transportation debt service reflects the ramp up of infrastructure spending from an average of \$350 million of spending annually from FY 06 through FY 12 to approximately \$750 million of spending from FY 13 through FY 20.

Governor

Adjust funding in FY 22 and FY 23 to reflect debt repayment schedule, based on prior and projected bond spending.

Legislative

Same as Governor

Follow Pension Obligation Bond Repayment Schedule

Pension Obligation Bonds - TRB	84,680,000	188,280,000	84,680,000	188,280,000	-	-
Total - General Fund	84,680,000	188,280,000	84,680,000	188,280,000	-	-

Background

In Fall 2008, \$2.3 billion of Pension Obligation Bonds (POBs) were issued to provide an influx of funding to the Teachers Retirement Fund. The bonds were issued with a back-loaded debt service repayment schedule - over the first 13 years of repayment (FY 09 through FY 21), the state paid less than \$1.4 billion towards the bonds, while the debt service schedule over the last 11 years of the contract (FY 22 through FY 32) anticipates \$3.4 billion of payments remaining.

FY	POBs DS	FY	POBs DS	FY	POBs DS
22	203.3	26	268.5	30	339.0
23	306.9	27	284.6	31	359.3
24	315.9	28	301.7	32	380.9
25	330.5	29	319.8		

The FY 20-21 budget included capitalizing a special capital reserve fund as part of fulfilling contractual requirements that allowed for changes to the actuarial assumptions used to calculate the State's annual required contribution to the Teacher's Retirement Fund, but did not change the debt service repayment schedule of the POBs themselves.

Governor

Increase funding in FY 22 and FY 23 to reflect contractual debt repayment schedule.

Legislative

Same as Governor

Totals

Budget Components	Governor Recommended		Legislative		Difference from Governor	
	FY 22	FY 23	FY 22	FY 23	FY 22	FY 23
FY 21 Appropriation - GF	2,368,829,874	2,368,829,874	2,368,829,874	2,368,829,874	-	-
Policy Revisions	(20,000,000)	(50,000,000)	(46,600,000)	(116,400,000)	(26,600,000)	(66,400,000)
Current Services	113,784,262	347,640,859	113,784,262	347,640,859	-	-
Total Recommended - GF	2,462,614,136	2,666,470,733	2,436,014,136	2,600,070,733	(26,600,000)	(66,400,000)
FY 21 Appropriation - TF	767,938,231	767,938,231	767,938,231	767,938,231	-	-
Policy Revisions	(4,800,000)	(2,800,000)	(13,300,000)	(11,300,000)	(8,500,000)	(8,500,000)
Current Services	15,863,492	86,082,249	15,863,492	86,082,249	-	-
Total Recommended - TF	779,001,723	851,220,480	770,501,723	842,720,480	(8,500,000)	(8,500,000)