Office of The
LEGISLATIVE FISCAL ANALYST
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MEMORANDUM FOR EXECUTIVE APPROPRIATIONS COMMITTEE

FROM: Brian Wikle, Analyst

DATE: May 15, 2017

SUBJECT: Prison and Transportation Debt and Debt Service Scenarios

The Legislature appropriated $80 million in FY 2016 (see S.B. 3, Item 199, 2015 General Session) and it has authorized General Obligation (GO) bond issuance of up to $575.7 million (see H.B. 454, 2015 General Session and H.B. 460, 2017 General Session) to finance construction of the State's new prison. The Division of Facilities Construction and Management (DFCM) oversees construction and it projects cash flow needs. Based on cash flow projections from DFCM as well as budgetary constraints and market conditions, the State anticipates issuing bonds that would yield total proceeds of $570 million as follows: $120 million in July 2017, $230 million in February 2018, $140 million in February 2019, and $80 million in February 2020.

In addition to bond authorization for the prison project, the Legislature authorized GO bond issuance of up to $1.047 billion for transportation projects (see S.B. 277, 2017 General Session). The Legislature capped issuance of transportation bonds so that the State's total debt that is subject to the constitutional debt limit may not exceed 50 percent of the limit. The State also has about $62.5 million of bonding capacity remaining from the authorization in UCA 63B-18-401, most of which is used in the bond issuance scenario presented below.

The charts that follow this memorandum depict bond issuances that would provide the anticipated proceeds needed to finance the prison project along with a scenario in which transportation debt is issued to yield proceeds of $1.106 billion while conforming with the cap requirement on total debt. The transportation debt scenario would yield proceeds as follows: $47 million in July 2017, $180 million in February 2018, $310 million in February 2019, $360 million in February 2020, and $209 million in February 2021.

The first chart shows existing and proposed prison and transportation debt in columns along with a dashed line for 50 percent of the debt limit.

- The gold-colored portions of columns show $90 million as a rough estimate for the value of State employees' unused leave—the Attorney General, State Treasurer, and other concerned parties are considering

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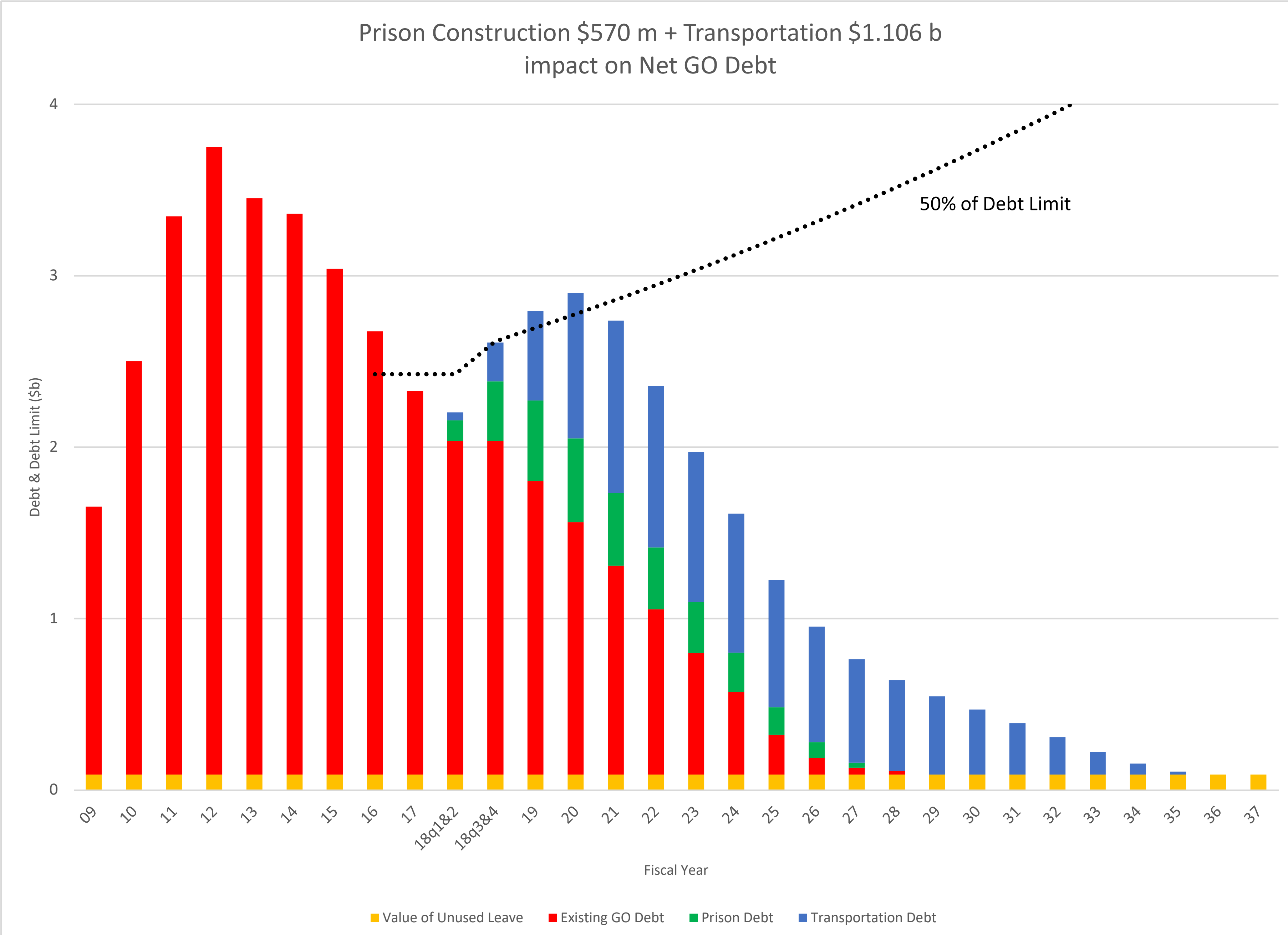
whether the value of unused leave should be included as an obligation of the State when determining headroom under the constitutional debt limit.

- In the model, the FY 2016 debt limit is carried forward to FY 2017 and the first two quarters of FY 2018 to comply with a requirement that the last official property valuations be used to calculate the debt limit; the limit is assumed to increase by 7.9 percent from FY 2018 quarters 1 & 2 to quarters 3 & 4 (as projected by the Tax Commission); and the limit is assumed to increase by 3 percent each year thereafter.
- Under the assumptions on growth in the debt limit and the bond schedules depicted in the model, total debt would exceed 50 percent of the debt limit in FY 2019 and FY 2020 regardless of whether the value of employees' unused leave is included in debt calculations—although it could delay planned projects, transportation bonds could be structured to ensure that total debt comes in under the 50 percent of debt limit threshold.

The second chart depicts amounts the State will pay in principal and interest for existing debt and debt service amounts that would be required under the prison and transportation bond scenarios described above.

- Debt service for the prison would be approximately $8.0 million in FY 2018, $25.2 million in FY 2019, range between $71.2 million and $71.8 million from FY 2020 through FY 2026, with two additional years until final payoff.
- Debt service for transportation bonds would be approximately $4.8 million in FY 2018 and rise to a peak of about $91.4 million in FY 2022, range between $89.7 million and $90.6 million for the following 11 years, with three additional years until final payoff.

The information presented in this memorandum and on the accompanying charts utilized bond scenarios as of May 9, 2017. Actual debt and repayment terms will not be known until bonds are sold.


Prison Construction $570 m + Transportation $1.106 b
impact on Net GO Debt
50% of Debt Limit
Debt & Debt Limit ($b)
0
1
2
3
4
09
10
11
12
13
14
15
16
17
18q1&2
18q3&4
19
20
21
22
23
24
25
26
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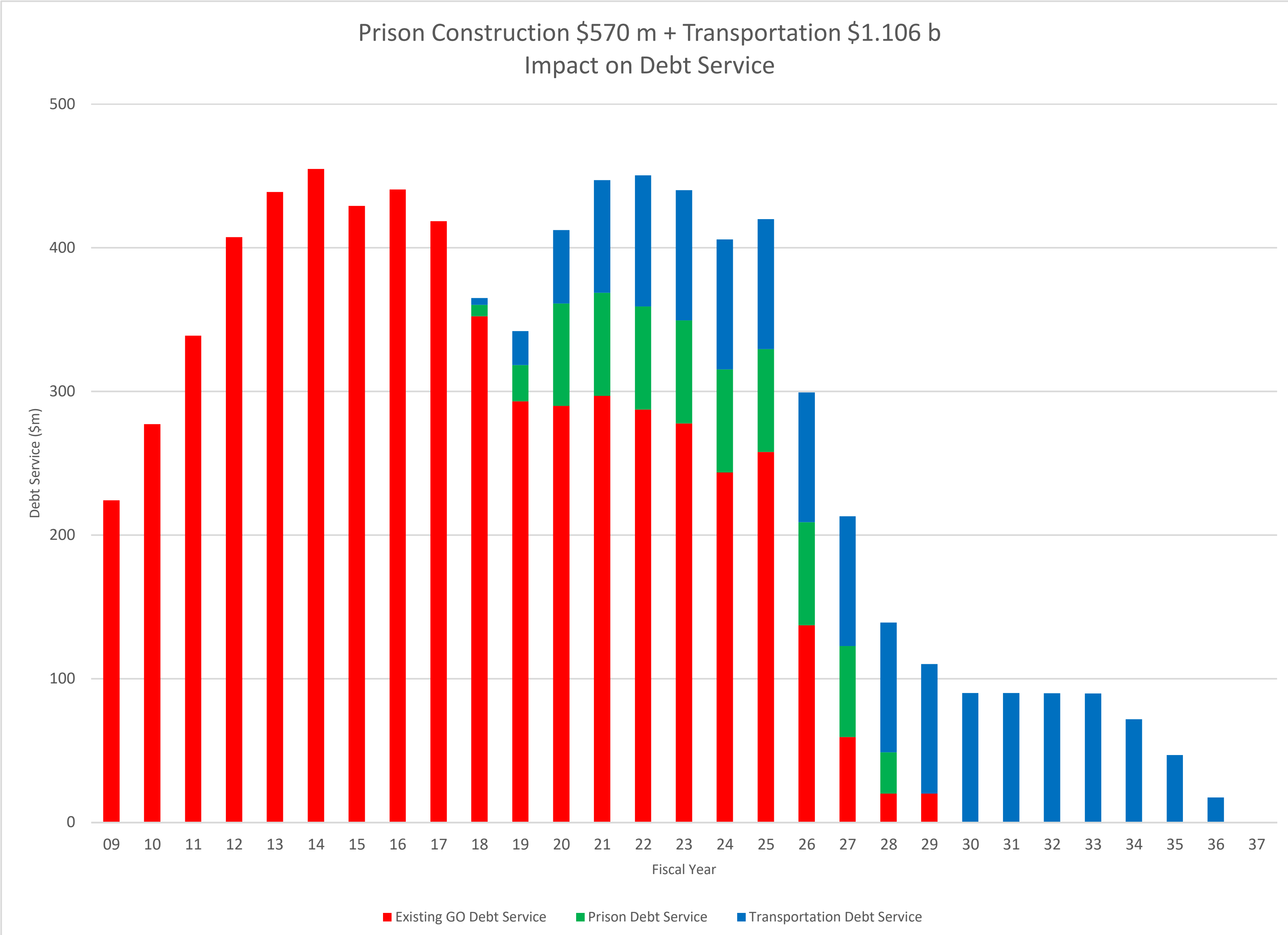
36
37
Fiscal Year
Value of Unused Leave
Existing GO Debt
Prison Debt
Transportation Debt


Prison Construction $570 m + Transportation $1.106 b
Impact on Debt Service
Debt Service ($m)
500
400
300
200
100
0
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
Fiscal Year
Existing GO Debt Service
Prison Debt Service
Transportation Debt Service