

## Debt Service - State Treasurer OTT14100

### Budget Summary

Account	Actual FY 21	Actual FY 22	Appropriation FY 23	Governor Recommended		Legislative	
				FY 24	FY 25	FY 24	FY 25
<b>Other Current Expenses</b>							
Debt Service	1,897,276,985	1,919,102,523	1,987,098,186	1,990,441,881	1,985,729,226	1,990,441,881	1,985,729,226
UConn 2000 - Debt Service	200,003,342	203,137,816	219,070,756	224,668,144	227,542,388	212,668,144	226,542,388
CHEFA Day Care Security	3,811,027	3,641,762	5,500,000	4,000,000	4,000,000	4,000,000	4,000,000
Pension Obligation Bonds - TRB	118,400,521	203,080,521	306,680,521	315,671,921	330,190,921	315,671,921	330,190,921
<b>Grant Payments to Local Governments</b>							
Municipal Restructuring	56,314,629	54,677,710	54,098,049	51,251,706	47,910,459	51,251,706	47,910,459
<b>Agency Total - General Fund</b>	<b>2,275,806,504</b>	<b>2,383,640,332</b>	<b>2,572,447,512</b>	<b>2,586,033,652</b>	<b>2,595,372,994</b>	<b>2,574,033,652</b>	<b>2,594,372,994</b>
<b>Agency Total - Special Transportation Fund</b>							
Debt Service	664,664,870	743,671,504	842,720,480	887,510,468	951,115,534	887,510,468	951,115,534
<b>Agency Total - Special Transportation Fund</b>	<b>664,664,870</b>	<b>743,671,504</b>	<b>842,720,480</b>	<b>887,510,468</b>	<b>951,115,534</b>	<b>887,510,468</b>	<b>951,115,534</b>
<b>Total - Appropriated Funds</b>	<b>2,940,471,374</b>	<b>3,127,311,836</b>	<b>3,415,167,992</b>	<b>3,473,544,120</b>	<b>3,546,488,528</b>	<b>3,461,544,120</b>	<b>3,545,488,528</b>

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 24	FY 25	FY 24	FY 25	FY 24	FY 25

## Policy Revisions

### Update Pension Obligation Bonds and Baby Bonds Financing

#### Background

PA 19-117 established the Teacher's Retirement Fund Special Capital Reserve Fund (TRF-SCRF), which allowed for changes to the calculation of the unfunded liability payment to the Teacher's Retirement Fund. The TRF-SCRF was capitalized by appropriating \$380.9 million in FY 19 for General Fund debt service. This did not change the repayment schedule for the Pension Obligation Bonds, which are scheduled to be repaid in full in FY 32.

PA 21-111 established the Connecticut Baby Bonds Trust, which also authorized \$600 million of General Obligation Bonds (\$50 million per year for 12 years, originally beginning in FY 23, before being delayed in subsequent legislation) for the purposes of capitalizing the trust fund.

#### Legislative

PA 23-204, the FY 24 and FY 25 budget, authorizes the Treasurer to replace funds currently in the TRF-SCRF with a financial guaranty, at which point the available funds would be transferred to the Connecticut Baby Bond Trust in order to capitalize the program. Such funds would be used in place of previously authorized GO bonds, which the act repeals. It is anticipated the current balance of the TRF-SCRF will be used as follows: (1) \$12 million to secure the financial guaranty in FY 24, and (2) \$380.9 million deposit to the Connecticut Baby Bonds Trust in FY 24.

### Payoff Outstanding GAAP Deficit Bond with FY 2023 Surplus

Debt Service	-	(58,372,875)	-	(58,372,875)	-	-
<b>Total - General Fund</b>	<b>-</b>	<b>(58,372,875)</b>	<b>-</b>	<b>(58,372,875)</b>	<b>-</b>	<b>-</b>

#### Background

In Fall 2013, the State issued approximately \$560 million of bonds to be used to mitigate a portion of the state's Generally Accepted Accounting Principles (GAAP) deficit. This bond issuance included a pledge to extinguish the remaining unfunded GAAP deficit (\$727.2 million) from that time before the bonds were repaid in FY 28.

In addition to annual repayment of the GAAP bonds, the state has made a total contribution of \$123.1 million towards the \$727.2 million unfunded GAAP deficit. Though no annual contribution is required, it would take revenue diversions of \$120.8 million annually through FY 28 to repay the remaining \$604.1 million unfunded GAAP deficit prior to final bond maturity.

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 24	FY 25	FY 24	FY 25	FY 24	FY 25

**Governor**

Eliminate GAAP bond payments of \$58,372,875 in FY 25, by using \$211.7 million of FY 23 surplus funds along with the FY 24 scheduled debt service payment of \$58.4 million to retire 2013 GAAP bonds early. This eliminates the need for future debt service payments on GAAP bonds (\$58.4 million annually through FY 28), which includes eliminating future interest payments totaling between \$21-34 million.

**Legislative**

Same as Governor

**Maintain Current Treatment of General Obligation Bond Premium**

Debt Service	(20,000,000)	(60,000,000)	(20,000,000)	(60,000,000)	-	-
<b>Total - General Fund</b>	<b>(20,000,000)</b>	<b>(60,000,000)</b>	<b>(20,000,000)</b>	<b>(60,000,000)</b>	<b>-</b>	<b>-</b>

**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. Prior to the change adopted for this provision, statute (C.G.S. 3-20j) required 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 24 and that premium related to GO bonds issued in FY 24 and beyond would be made available for projects. Bonds backed by the Special Transportation Fund and bonds for the UConn 2000 program both use premium for project costs.

Premium proceeds are dependent on market conditions and the state's credit position. Current service debt service projections for FY 24 and FY 25 include savings generated from strong premiums in CY 21 bond issuances and lower levels of premium generated in CY 22. Recent market changes, especially higher market interest rates, may limit the availability of bond premium going forward.

**Governor**

Reduce debt service appropriations by \$20 million in FY 24 and \$60 million in FY 25 to reflect in-biennium savings as a result of delaying statutory requirements regarding the continued use of premium for current debt service requirements. The Governor's proposed change would delay the requirement that bond premiums be used for projects beginning in FY 24 to FY 26.

**Legislative**

Delay of use of bond premiums for projects until FY 26 and reduce debt service appropriations by \$20 million in FY 24 and \$60 million in FY 25. The statutory policy (CGS 3-20j) was modified in section 113 of PA 23-205, the bond act.

**Current Services**

**Adjust Debt Service Based on Changes to Bond Issuance**

UConn 2000 - Debt Service	-	-	(12,000,000)	(1,000,000)	(12,000,000)	(1,000,000)
<b>Total - General Fund</b>	<b>-</b>	<b>-</b>	<b>(12,000,000)</b>	<b>(1,000,000)</b>	<b>(12,000,000)</b>	<b>(1,000,000)</b>

**Background**

Bonds authorized for the UConn 2000 program are issued regularly based on available authorizations and cash flow needs of the program.

**Legislative**

Reduce UConn 2000 debt service by \$12 million in FY 24 and \$1 million in FY 25, to reflect a delay of UConn 2000 bond issuance from Spring to Fall in each of 2023 and 2024.

**Adjust CHEFA Day Care Security Debt Service**

CHEFA Day Care Security	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)	-	-
<b>Total - General Fund</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>	<b>-</b>	<b>-</b>

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 24	FY 25	FY 24	FY 25	FY 24	FY 25

### Background

The Connecticut Health and Education Facilities Authority (CHEFA) is authorized to issue bonds that can be used to provide loans for child care facilities. This debt is guaranteed and mostly repaid by the General Fund, with a portion of the payment coming from day care operators. As of November 2022, CHEFA had approximately \$36.5 million in outstanding bonds under the child care facilities program.

### Governor

Reduce debt service payment for the CHEFA day care program by \$1.5 million in each of FY 24 and FY 25.

### Legislative

Same as Governor

### Reflect Debt Service Repayment Requirements

Debt Service	23,343,695	117,003,915	23,343,695	117,003,915	-	-
UConn 2000 - Debt Service	5,597,388	8,471,632	5,597,388	8,471,632	-	-
Municipal Restructuring	(2,846,343)	(6,187,590)	(2,846,343)	(6,187,590)	-	-
<b>Total - General Fund</b>	<b>26,094,740</b>	<b>119,287,957</b>	<b>26,094,740</b>	<b>119,287,957</b>	-	-
Debt Service	44,789,988	108,395,054	44,789,988	108,395,054	-	-
<b>Total - Special Transportation Fund</b>	<b>44,789,988</b>	<b>108,395,054</b>	<b>44,789,988</b>	<b>108,395,054</b>	-	-

### Background

Debt service reflects the state's obligation to make payments on services and goods provided in previous years. In FY 24, over 90 percent of the projected baseline debt service payment is to repay bonds that were issued prior to FY 23. Market conditions changed considerably from 2021 to 2023, including rising interest rates that have been partially offset by improvements in the State's credit rating and decreases in General Obligation bond issuance.

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 22 spending at \$1.4 billion. Bond spending in previous years relates to debt service payments in the current biennium, as payments are made on issued bonds.

UConn 2000 debt service is expected to plateau around \$225 million in FYs 24-26 due to the combination of the state's credit rating improvements and scheduled declines in new authorization and issuance for the UConn 2000 program. 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).

Transportation debt service reflects the ramp up of Special Tax Obligation (STO) bond issuance from an annual average of approximately \$350 million from FY 06 through FY 12 to approximately \$710 million from FY 13 through FY 22. Current service estimates for STF debt assume a ramp up of STO bond issuances from \$830 million in FY 23 to \$1 billion in each of FY 24 and FY 25. Increased STO issuance and increasing interest rates both contribute to rising debt service repayment requirements.

### Governor

Adjust funding in FY 24 and FY 25 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	8,991,400	23,510,400	8,991,400	23,510,400	-	-
<b>Total - General Fund</b>	<b>8,991,400</b>	<b>23,510,400</b>	<b>8,991,400</b>	<b>23,510,400</b>	-	-

### 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 15 years of repayment (FY 09 through FY 23), the state paid less than \$1.9 billion towards the bonds (\$133 million annual average), while the debt service schedule over the last 9 years of the contract (FY 24 through FY 32) anticipates \$2.9 billion of payments remaining (\$322 million annual average).

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 24	FY 25	FY 24	FY 25	FY 24	FY 25

**POBs Annual Debt Service Remaining Schedule** (in millions of \$)

FY	Amount	FY	Amount	FY	Amount
24	315.9	27	284.6	30	339.0
25	330.5	28	301.7	31	359.3
26	268.5	29	319.8	32	380.9

The FY 20-21 budget made a FY 19 appropriation 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 24 and FY 25 to reflect contractual debt repayment schedule.

**Legislative**

Same as Governor

**Totals**

Budget Components	Governor Recommended		Legislative		Difference from Governor	
	FY 24	FY 25	FY 24	FY 25	FY 24	FY 25
FY 23 Appropriation - GF	2,572,447,512	2,572,447,512	2,572,447,512	2,572,447,512	-	-
Policy Revisions	(20,000,000)	(118,372,875)	(20,000,000)	(118,372,875)	-	-
Current Services	33,586,140	141,298,357	21,586,140	140,298,357	(12,000,000)	(1,000,000)
<b>Total Recommended - GF</b>	<b>2,586,033,652</b>	<b>2,595,372,994</b>	<b>2,574,033,652</b>	<b>2,594,372,994</b>	<b>(12,000,000)</b>	<b>(1,000,000)</b>
FY 23 Appropriation - TF	842,720,480	842,720,480	842,720,480	842,720,480	-	-
Current Services	44,789,988	108,395,054	44,789,988	108,395,054	-	-
<b>Total Recommended - TF</b>	<b>887,510,468</b>	<b>951,115,534</b>	<b>887,510,468</b>	<b>951,115,534</b>	-	-