



# STATE BOND COMMISSION

## DEPARTMENT OF TREASURY

Senate Revenue and Fiscal Affairs

May 7, 2018

# Overview

- In accordance with the Comprehensive Capital Outlay Budget, cash lines of credit provide a mechanism to cash flow capital outlay projects that in the future will be funded with General Obligation (“GO”) bond proceeds.
- Constitutional debt limit constrains the amount of GO bonds that can be issued (“debt limit”). Debt service can be no more than 6% of the REC revenues in any fiscal year.
- The 1<sup>st</sup> REC forecast of the fiscal year establishes the debt limit. At present, the December 2017 REC forecast is applicable and will be until the REC adopts an official forecast in FY 2019.
- The December 2017 forecast provided for debt limit capacity of \$315 M of GO Bond proceeds that can be raised in FY 2019.
- If the 1<sup>st</sup> REC forecast in FY 2019 is similar to the April 2018 REC forecast, the amount of GO Bond proceeds that could be raised under the debt limit is projected to be \$435 M in FY 2019.
- The cost of issuing new debt impacts the operating budget.
- It is anticipated new GO Bonds will need to be issued in FY 19 to fund cash lines of credit.

# 3 Things that Constrain Issuance of New GO Bonds

## 1. Constitutional Debt Limit

- *Limits the amount of bonds that can be issued.*

## 2. Cash Lines of Credit Limit

- *State Bond Commission (“SBC”) is limited under the law in the amount cash lines of credit that can be authorized each fiscal year.*
- *This limit is made up the prior year authorized cash lines of credit that remain unfunded plus new incremental limit.*
- *In FY 2018 this limit is \$1.14 B of which \$916 M has been approved by SBC to date.*
- *In FY 2019 this limit is \$965.21 M as reflected in the current version of HB 2.*

## 3. Operating Budget

- *Debt service is among the state’s nondiscretionary fixed costs.*
- *In FY 2018 GO debt service is \$418 M.*
- *In FY 2019 GO debt service is \$423 M.*

# Debt Limit Projection

## March 2018

*The 1st REC forecast of the fiscal year establishes the debt limit.*

*At present, the December 2017 REC forecast is applicable and will be until the REC adopts an official forecast in FY 2019.*

*Based on December 2017 REC forecast, the amount of GO bond proceeds that can be raised under the debt limit is projected to be:*

- \$315 million in FY 2019
- \$300 million in each year thereafter

*Assumes bonds are issued with the State's traditional 20 year level debt structure.*

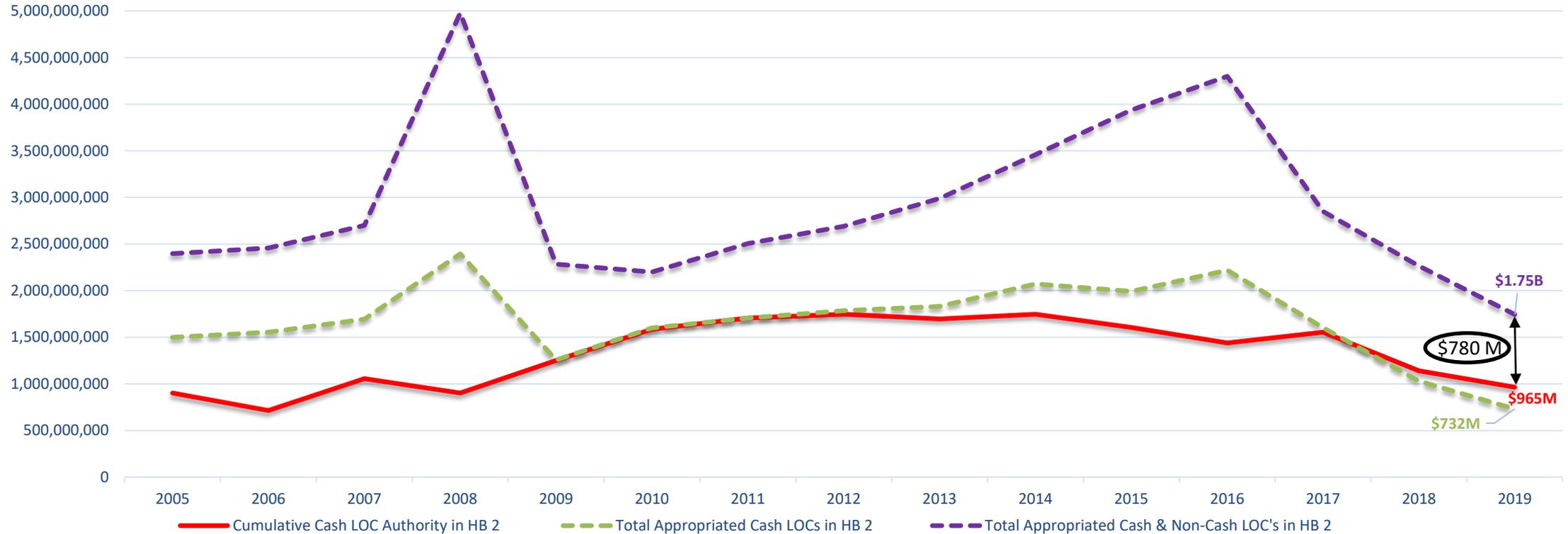
# Updated Debt Limit Projection April 2018

*Based on the April 2018 REC forecast, the amount of GO bond proceeds that could be raised under the debt limit is projected to be:*

- \$435 million in FY 2019
- \$420 million in FY 2020
- \$400 million in FY 2021-2022
- \$350 million each year thereafter

*Since March, debt limit capacity has improved due to the increase in revenue forecasts by the REC on April 12, 2018.*

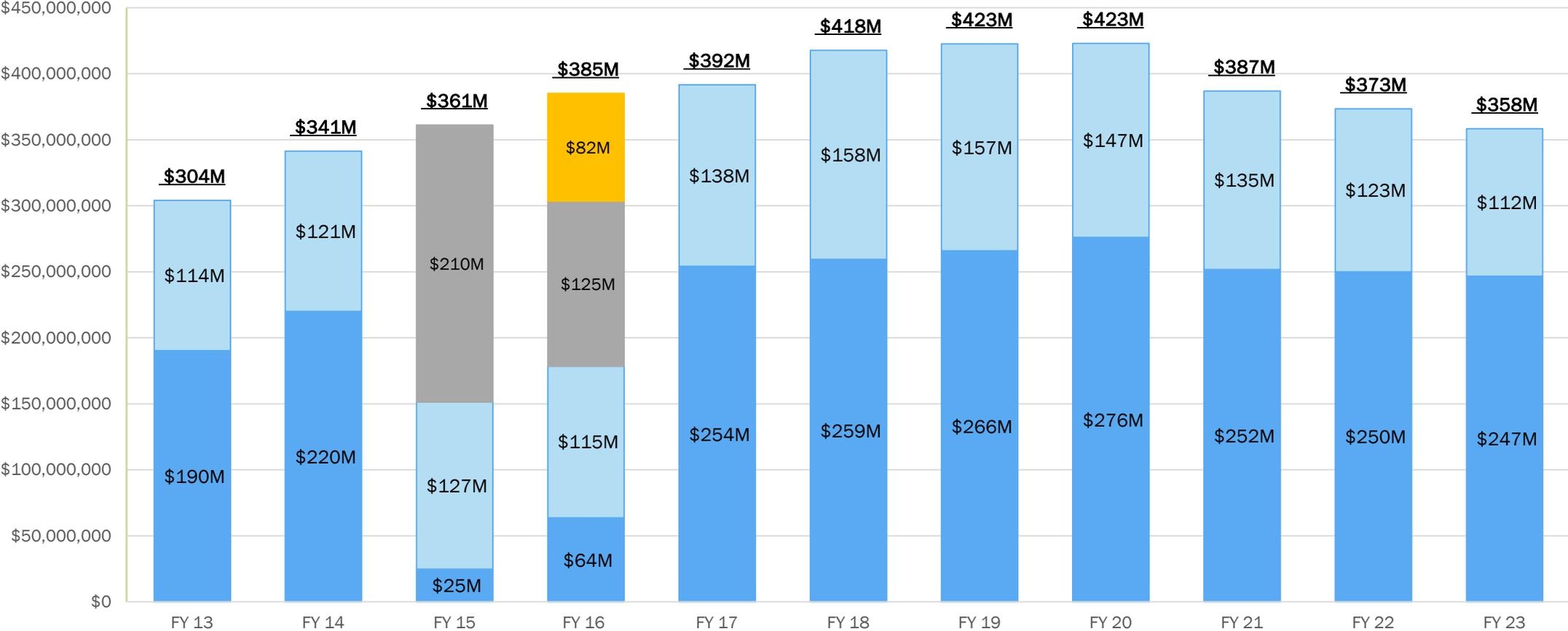
# What is the Legislative Demand for New GO Bonds?



- The **red line** is the maximum amount of cash lines of credit that SBC is authorized to approve each fiscal year.
- The dotted lines are appropriations in the Capital Outlay bill; **green** is cash lines of credit and **purple** is cash and non-cash lines of credit.

*Includes figures from the re-reengrossed version of the capital outlay budget and program (HB2) of the 2018 Regular Session.*

# GO Debt Service



- - Actual principal cost of GO Bonds that have already been sold to fund Capital Outlay Projects.
- - Actual interest cost of GO Bonds that have already been sold to fund Capital Outlay Projects.
- - One time measure to set aside surplus dollars to pay for debt service.
- - One time measure to refinance and defer FY 16 GO debt service to eliminate a portion of the FY 16 deficit.

*Does not include projections for any new money sales.*

# Effect of new GO debt cost on the operating budget?

Assumes debt capacity under December 2017 REC

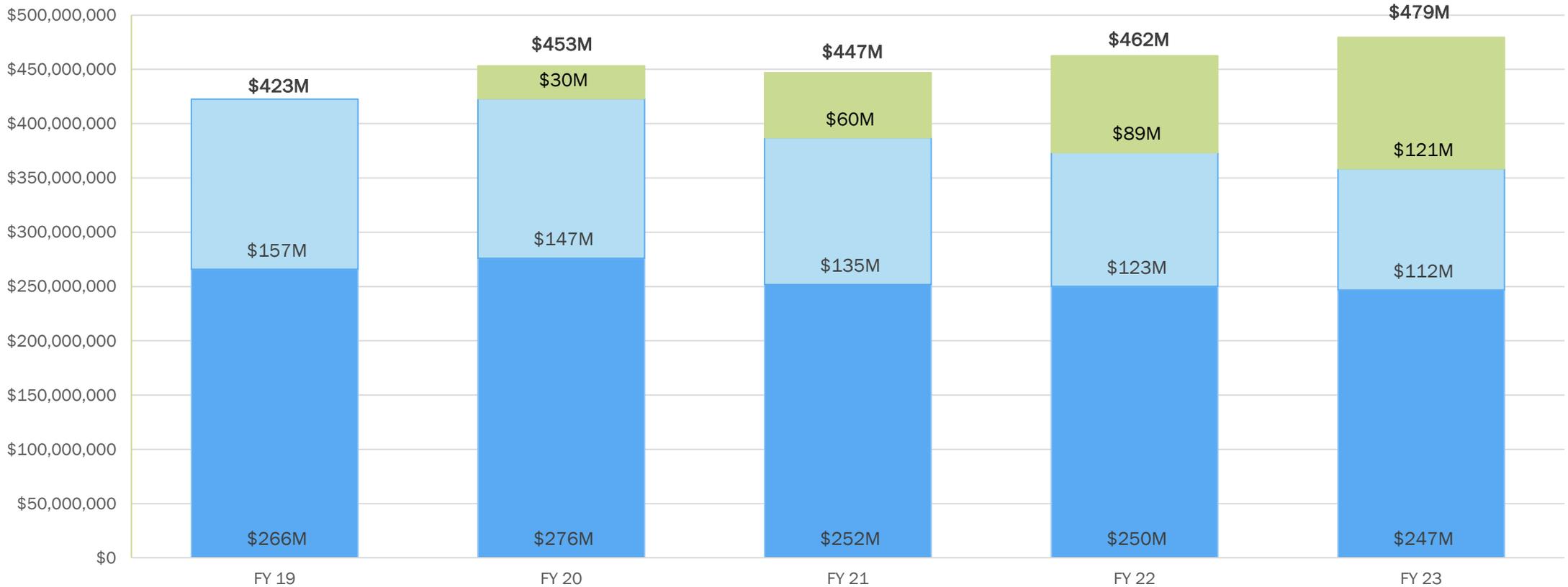


- - Actual principal cost of GO Bonds that have already been sold to fund Capital Outlay Projects.
- - Actual interest cost of GO Bonds that have already been sold to fund Capital Outlay Projects.
- - Projected cost of new GO Bonds if all available debt limit is used beginning in Fiscal Year 2019 to continue to fund Capital Outlay Projects. This projects \$315 M raised in FY 19 and \$300 M thereafter.

*Assumes bonds are issued with the State's traditional 20 year level debt structure.*

# Effect of new GO debt cost on the operating budget?

Assumes debt capacity under April 2018 REC

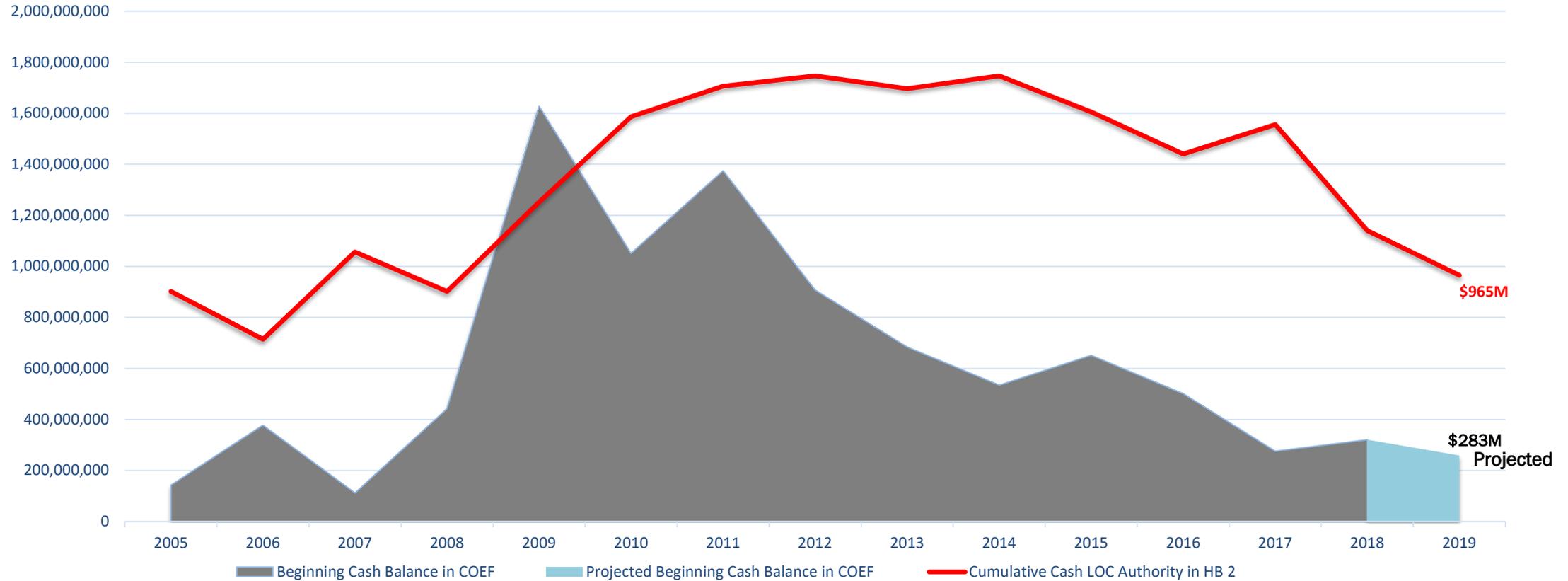


- - Actual principal cost of GO Bonds that have already been sold to fund Capital Outlay Projects.
- - Actual interest cost of GO Bonds that have already been sold to fund Capital Outlay Projects.
- - Projected cost of new GO Bonds in FY 2019 to continue to fund Capital Outlay Projects.  
This projects \$435 M raised in FY 19, \$420 M in FY 20, \$400 M in FY 21 -22 and \$350 M thereafter.

*Assumes bonds are issued with the State's traditional 20 year level debt structure.*

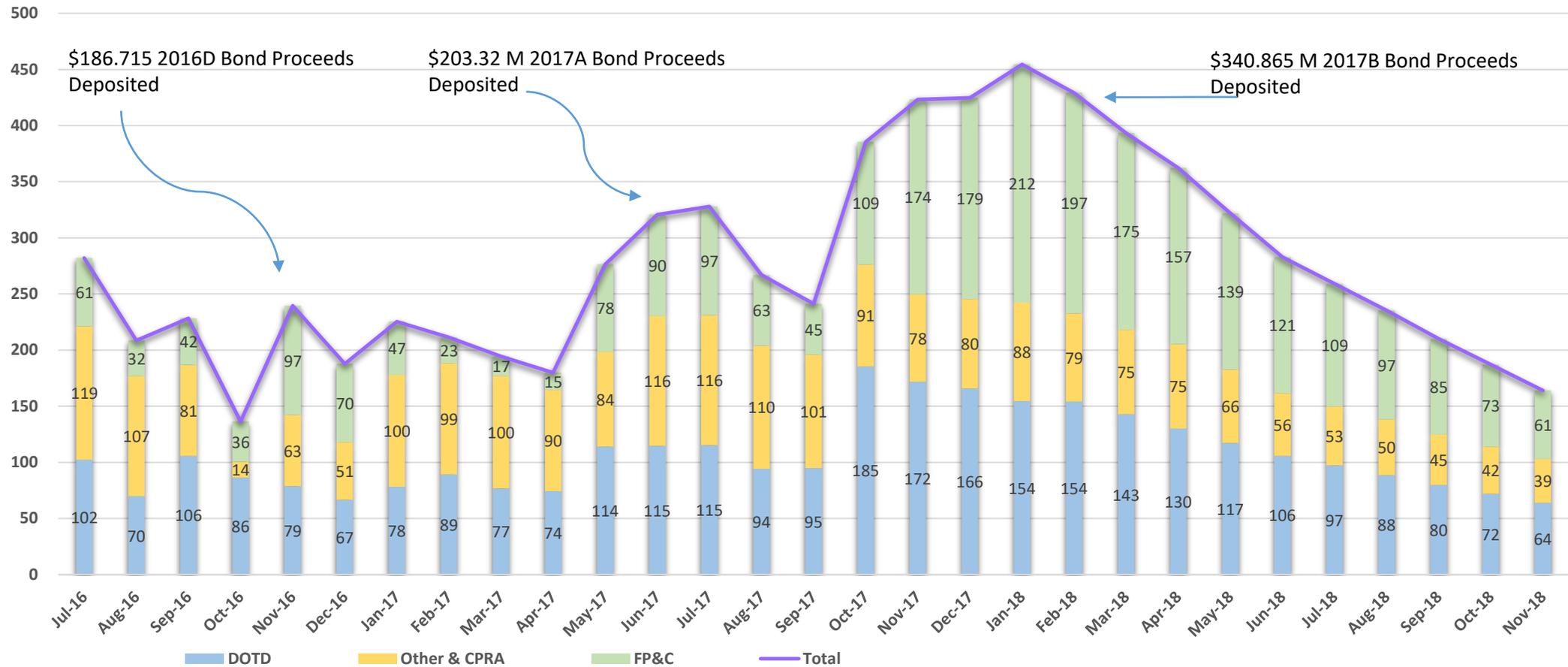
How much money is available to pay for capital outlay projects?

# Capital Outlay Escrow Fund vs SBC's Authority to Issue LOC's



- The grey area reflects cash in the Capital Outlay Escrow Fund has declined over time. The blue is the projected beginning cash balance for FY 19.
- The red line is the maximum amount of cash line of credit legal limit that SBC is authorized to approve each fiscal year.
- General Fund surplus dollars bolstered the Fund 10 years ago, that cash is now largely depleted and the Fund will depend on new GO bond proceeds to fund cash lines of credit reflected in the red line in the future.

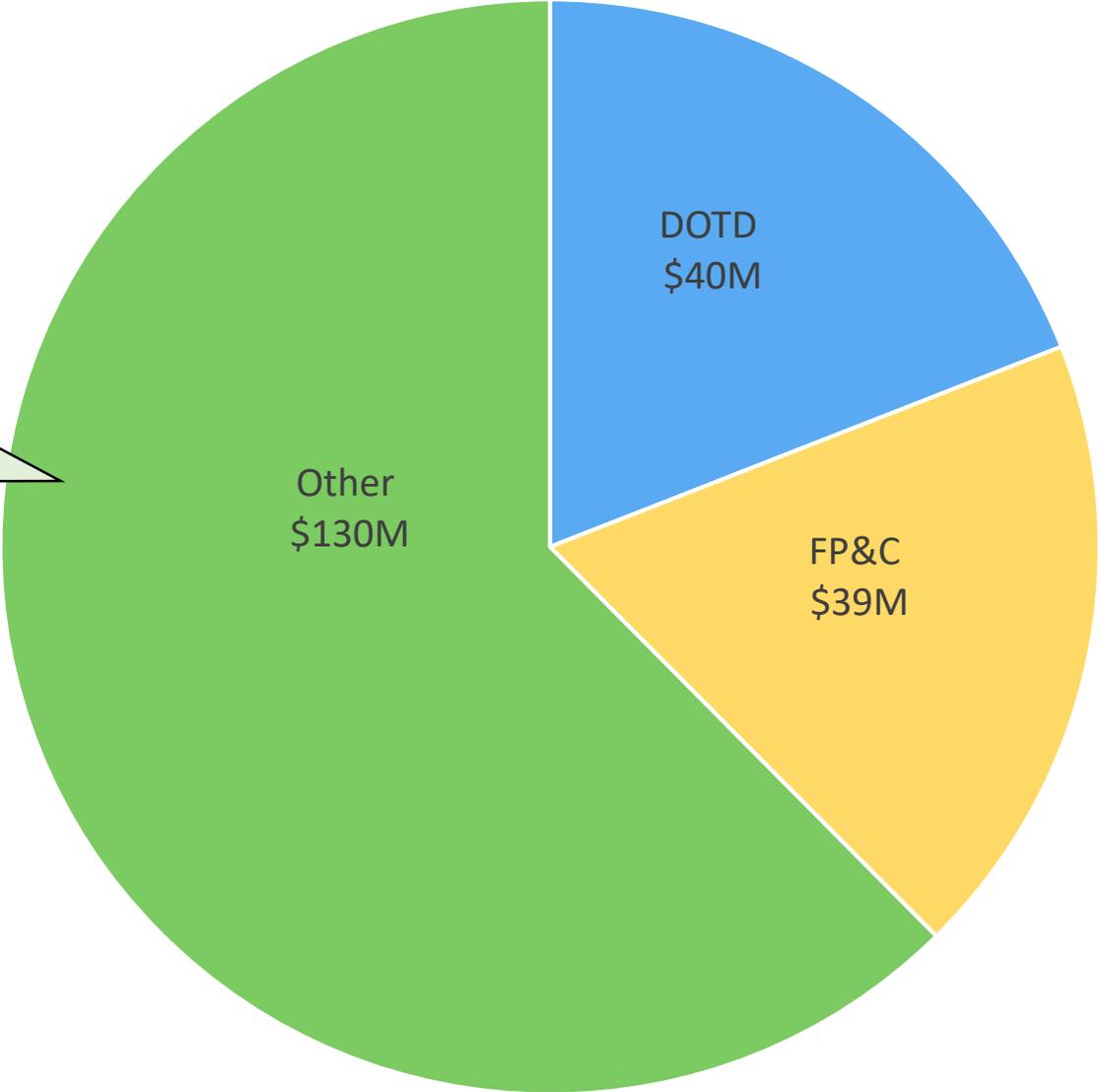
## Month End Capital Outlay Escrow Fund Balances (in millions)



- Jul-16 through Mar-18 reflect actual month end balances.
- Apr-18 forward reflect projected month end balances based upon projected expenditures.
- At the beginning of FY 2018, projected net outflows for the fiscal year were \$477 M, of which \$360 M were attributable to cash lines of credit expenditures.
- It is anticipated new GO Bonds will need to be issued in FY 19 to replenish the fund.

# General Fund Balance Capital Outlay Escrow Fund As of April 18, 2018

DOA - Comm Dev	\$ 644K
Military Affairs	\$ 5K
LA Stadium & Expo	\$ 976K
Econ Dev	\$ 76K
Natural Resrcs	\$ 125M
Subgrantee Asst	\$ 2.69M
House of Rep	\$ 38K
Legis Budgt Ctrl	\$ 53K



# What does all this mean?

SBC Approved Cash Lines of Credits	=	\$ 916 M
Cash Lines of Credit Funded with GO Bond Proceeds in FY 18	-	\$ 341 M
Remaining Cash Lines of Credits to be Funded with GO Bond Proceeds	=	\$ 575 M
FY 19 Borrowing Limit (If 1 <sup>st</sup> REC forecast in FY19 is similar to April 2018 forecast)	-	\$ 435 M
<b>Shortfall</b>	=	<b>(\$140 M)</b>

- Assumes no new projects
- Assumes operating budget permits total cost for borrowing limit of \$435 M next year
- Assumes April, 12, 2018 Revenue Forecast

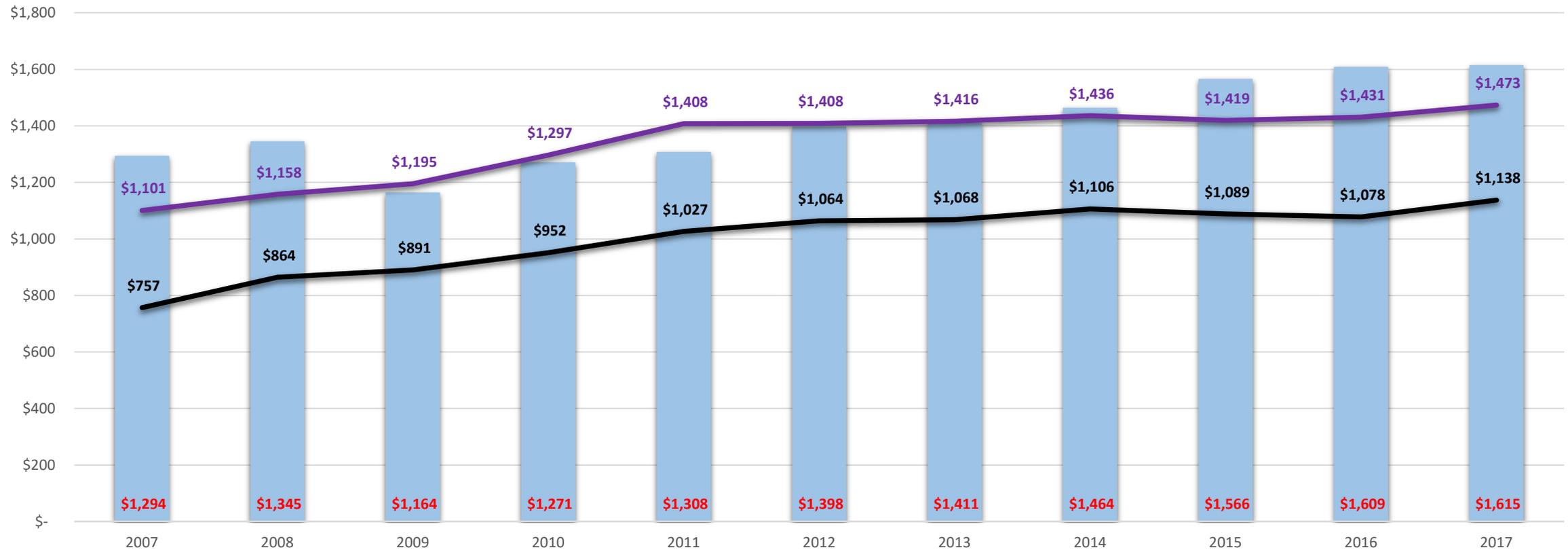
# State Credit Ratings & State Debt Trends

# How LA's Credit Rating Compares to Other States

Distribution of state GO and Issuer Ratings by Rating Category as of March 9, 2018						
Aaa (14 States)	Aa1 (19 States)	Aa2 (8 States)	Aa3 (5 States)	A1 (1 State)	A3 (1 State)	Baa3 (1 State)
Delaware	Alabama	Arizona	Alaska	Connecticut	New Jersey	Illinois
Georgia	Arkansas	Kansas	California			
Indiana	Colorado	Maine	Kentucky			
Iowa	Florida	Mississippi	<b>Louisiana</b>			
Maryland	Hawaii	Nevada	Pennsylvania			
Missouri	Idaho	Oklahoma				
North Carolina	Massachusetts	Rhode Island				
South Carolina	Michigan	West Virginia				
South Dakota	Minnesota					
Tennessee	Montana					
Texas	Nebraska					
Utah	New Hampshire					
Vermont	New Mexico					
Virginia	New York					
	North Dakota					
	Ohio					
	Oregon					
	Washington					
	Wisconsin					

Source: Moody's Investors Service, Rating changes for the 50 states from 1970

# Per Capita Debt



Sources: Moody's Investors Service, Medians Reports

■ Louisiana    
 — National Average    
 — Selected Southern States Average

Per Capita Debt includes:

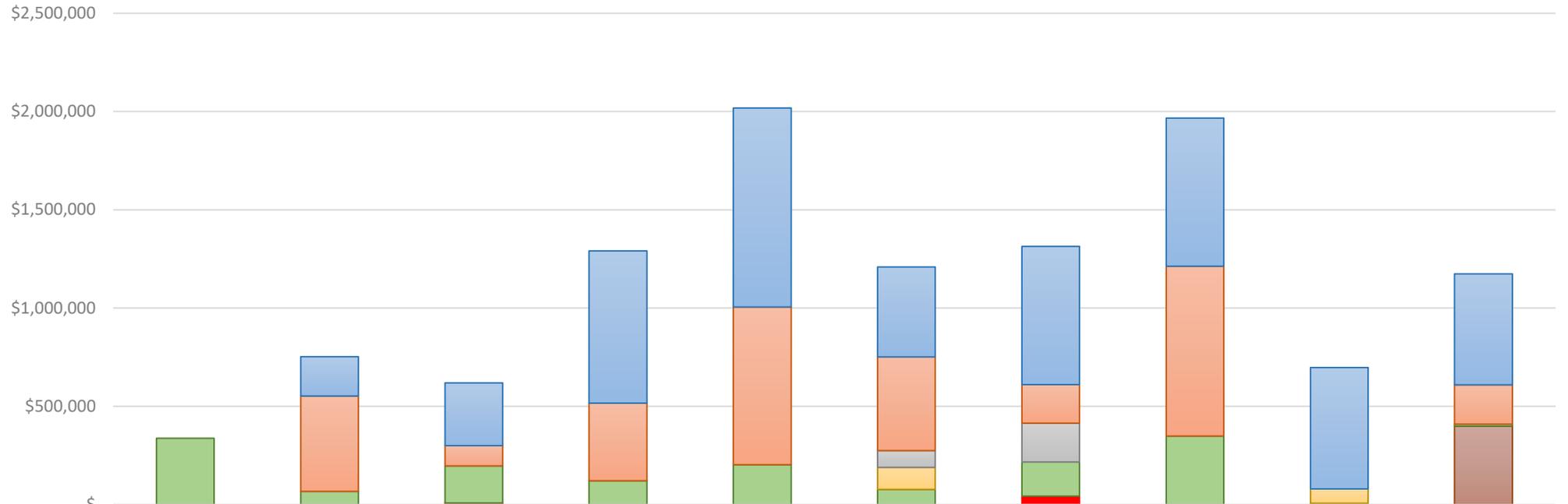
- Debt supported by statewide taxes (GO Bonds, Revenue Bonds & certain debt issued by various entities and secured by an annual appropriation by the Legislature)
- State's Net Pension Liability
- State's Other Post Employment Benefits

Selected Southern States include: Alabama, Arkansas, Georgia, Kentucky, Mississippi and Tennessee

# Historical Recap of Bonds Issued

## Total Principal by Fiscal Year

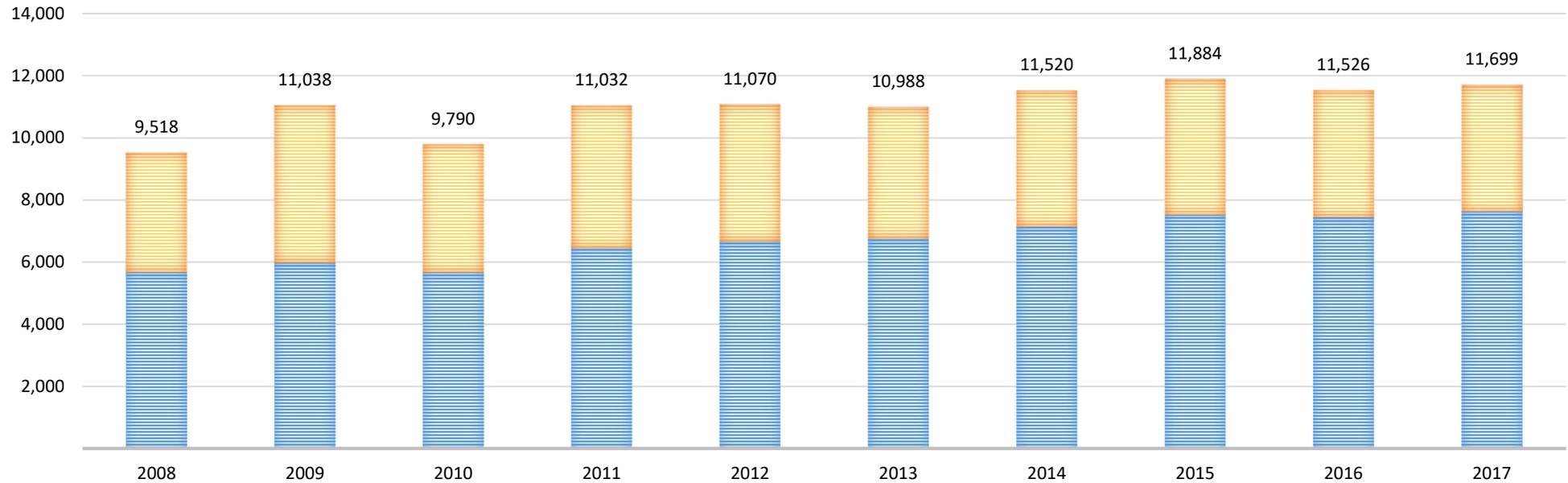
(In Thousands)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Transactions	3	7	7	7	11	13	12	13	5	6
General Obligation Bonds	\$	\$200,000	\$319,020	\$775,135	\$1,011,490	\$457,855	\$702,245	\$752,865	\$616,860	\$564,230
Gas & Fuels Tax Bonds	\$	\$485,000	\$103,125	\$394,310	\$803,080	\$476,125	\$196,340	\$864,705	\$	\$200,000
State Highway Improvement Bonds	\$	\$	\$	\$	\$	\$85,400	\$198,135	\$	\$	\$
Unclaimed Property Bonds	\$	\$	\$	\$	\$	\$111,675	\$	\$	\$73,820	\$
Appropriation Dependent Debt	\$337,675	\$67,470	\$189,480	\$121,635	\$202,661	\$78,025	\$173,530	\$348,845	\$6,840	\$9,740
Self-Supporting Debt	\$	\$	\$7,900	\$	\$	\$	\$43,085	\$	\$	\$
State Revenue Anticipation Notes										\$400,000

Includes debt supported by statewide taxes (GO Bonds, Revenue Bonds & certain debt issued by various entities and secured by an annual appropriation by the Legislature)

## Historical Total Debt Outstanding Fiscal Years 2008 through 2017 (in Millions)



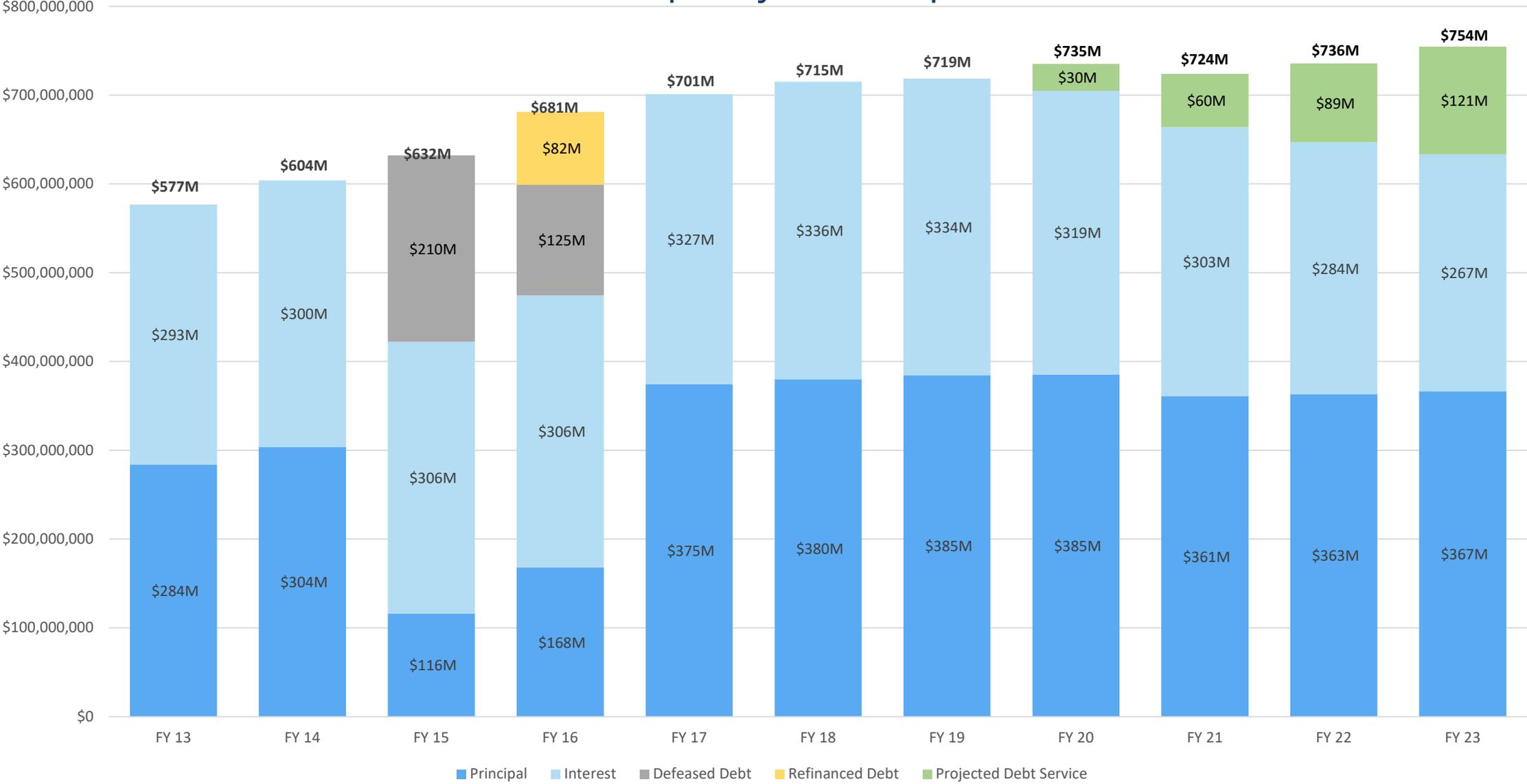
	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Interest	3,835	5,053	4,122	4,572	4,396	4,224	4,365	4,352	4,079	4,062
Principal	5,683	5,986	5,669	6,460	6,674	6,765	7,155	7,533	7,447	7,637
Total NSTSD & Non-NSTSD	9,518	11,038	9,790	11,032	11,070	10,988	11,520	11,884	11,526	11,699

Includes debt supported by statewide taxes (GO Bonds, Revenue Bonds & certain debt issued by various entities and secured by an annual appropriation by the Legislature)

- LA's conservative practice of issuing 20 year level debt for GO Bonds means that debt is paid down fast enough to keep total outstanding debt from growing.
- LA has taken advantage of market opportunities to refund debt for savings, which has also helped to restrain the cost of servicing the outstanding debt.

# Total Debt Service

Assumes debt capacity under April 2018 REC



Includes debt supported by statewide taxes (GO Bonds, Revenue Bonds & certain debt issued by various entities and secured by an annual appropriation by the Legislature)