
State Debt and Retirement Systems

Appropriations Committee Hearings

January 10 & 11, 2023



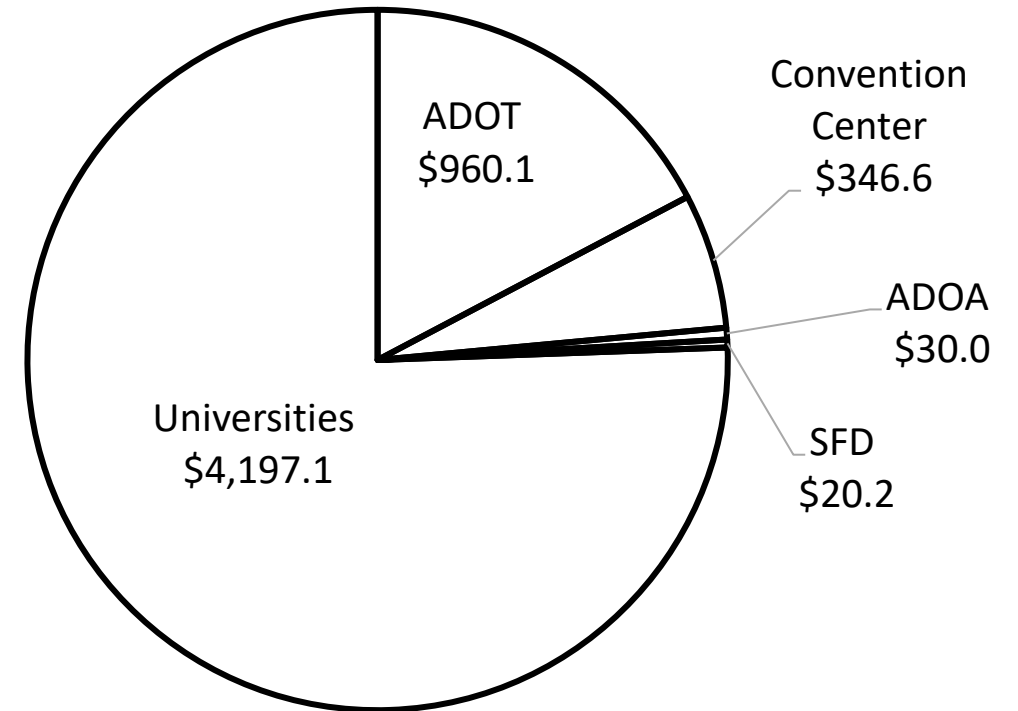
State Debt

Recent Debt Payoffs

- In the last several years, more than \$1 billion in state debt has been paid off:
 - \$660 million for sale/leaseback financing
 - \$270 million for Lottery Revenue Bonds
 - \$172 million for ADOA/SFD new construction
 - \$160 million for ADC prison financing and ASH Forensic Unit
- Payoffs eliminated \$206 million in annual debt service payments

Total Outstanding Debt After Payoffs is \$5.6 B

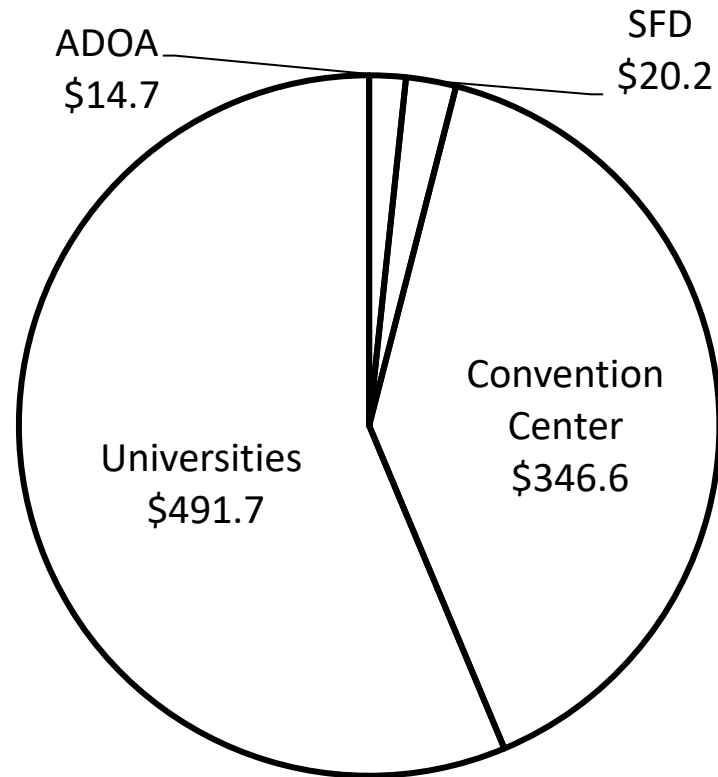
- Debt service is funded by multiple payment sources
- Most remaining debt is for university capital projects and ADOT road projects



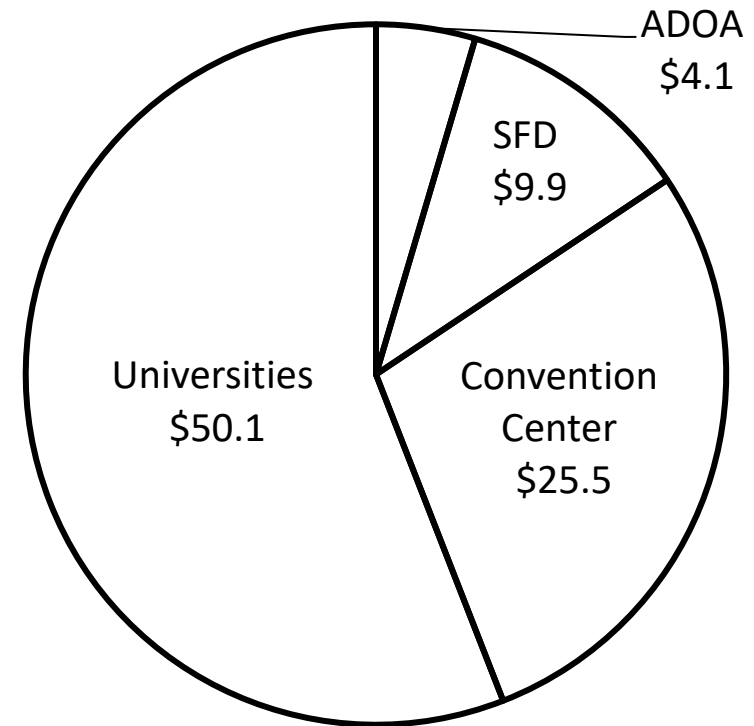
End of FY 2024 - \$ in Millions

General Fund Share of Outstanding Balances

Total GF Balance = \$873 M



Annual GF Debt Service = \$90 M



End of FY 2024 - \$ in Millions

Additional Debt Payoff Scenarios

- Given recent payoffs, state only has a limited number of remaining General Fund backed issuances
- 2 direct General Fund backed issuances: Phoenix Convention Center(state portion) and University 2003 Research issuance
- 2 debt issuances with partial connection to General Fund: University Lottery Bonds (80% GF paid) and University 2017 bonding program (50% GF paid) – much more complicated to pay off
- When reviewing debt payoff options, consider both:
 - Size of annual payment being eliminated (impacts ongoing budget capacity)
 - Net debt service savings over remaining term

Debt Payoff Scenarios

Issuance	Escrow Deposit	Annual GF Payment Eliminated	Cumulative Net GF Savings
Phoenix Convention Center	430	26	211
University 2003 Research	238	32	27

- Given prepayment restrictions, state would deposit payoff into escrow account, removing debt balance and annual payments from state's books

Retirement Systems

Summary of Recent Pension Payoffs

- FY 22 budget allocated \$1 billion to reduce unfunded pension liability (\$500 million to DPS PSPRS/\$500 million to ADC CORP).
 - This deposit reduced annual GF spending by \$(100) million
- FY 23 budget allocated \$1.2 billion to eliminate remaining state agency PSPRS/CORP unfunded pension liability
 - This deposit reduced annual GF spending by another \$(100) million
 - Also generated non-GF savings in agencies (such as DPS)
- FY 23 budget also required PSPRS Board of Trustees to report on actuarial assumptions (such as investment returns)

Current Unfunded State Pension Liability

Retirement System/Group	Unfunded Liability	Funded Ratio
Elected Officials Retirement Plan (EORP)	\$609 M	38.7%
CORP – Courts Probation Officers	\$429 M	59.0%
Arizona State Retirement System (ASRS)	\$17.9 B	72.7%

- Reflects 6/30/22 actuarial valuation of systems with state employees
- Analysis excludes any systems that are local governments only (such as municipal police/fire)

Pension Payoff Considerations

- Remaining 3 underfunded state systems contain a combination of state employees and local government employees
 - EORP = State/County/City elected officials, plus judges
 - CORP = Probation Officer positions which are funded with state/county monies
 - ASRS = State and most Local governments, including school districts
- For EORP and CORP Probation, if General Fund provides funding for payoff, may consider a mechanism for local governments (city or county) to reimburse state
- Given number of participating entities, recent legislation authorized ASRS to establish prepayment program for individual employers

Potential Pension Payoff Scenarios

- EORP/CORP Assume Full Payoff; ASRS Payoff Amount Could Vary

Retirement System/Group	Deposit Amount	Contribution Rate Change	Annual Savings
Elected Officials Retirement Plan (EORP)	\$609 M	(58.57)%	\$40 M – \$50 M General Fund, including recouping local savings
CORP – Courts Probation Officers	\$429 M	(36.31)%	\$30 M – \$35 M General Fund, including recouping local savings (much more complex)
Arizona State Retirement System (ASRS)	Amount deposited can vary and annual savings depend on Contribution Prepayment Program terms with ASRS. State could select prepayment for individual agencies.		