

## JLBC Annual Debt Report

Laws 2011, Chapter 130 (A.R.S. § 41-1277) requires the JLBC Staff to present to the House and Senate Appropriations Committees a report on state debt and obligations. Statute requires the report to include the following information from the prior fiscal year (FY 2011):

- The statewide aggregate level of outstanding principal, by type of debt or obligation
- The principal and interest payments on each of the state’s long-term obligations
- A description of the state’s payment deferrals (“rollovers”) by agency, including: the date the payment was originally scheduled to be made, interest paid to date on the deferral, and interest paid in the prior and current fiscal years (FY 2011/FY 2012)
- Historical information on the state’s overall debt balance and per capita debt obligations, based on available data.

To the extent possible, Chapter 130 requires data contained in the report to be based on the Department of Revenue (DOR) [Arizona Report of Bonded Indebtedness](#), which is published annually along with an online searchable database.

The report provides a detailed look at each of the state’s outstanding financing obligations (*Table 1*) along with specific information regarding each of the state’s payment deferrals (*Table 2*). In addition, it includes a presentation (*page 5*) which gives an overall view of the state’s methods and process for using long-term financing. The presentation contains a summary description of the state’s financing, including: the relative mix of uses for long-term financing (capital, local school district facilities, and operating); the amount of financing and debt payments which are supported by the state General Fund; and finally historical information regarding the state’s outstanding debt balance (*Table 3*).

Below is a brief overview of the report:

<b>State Debt and Financing Summary</b>	
<b>(As of FY 2011)</b>	
Total Obligations	\$ 9.83 B
Outstanding Financing (excludes rollovers)	\$ 8.64 B
Outstanding General Fund Financing	\$ 3.66 B
FY 2011 General Fund Debt Service	\$ 224 M
Interest as a % of General Fund Debt Service	74%
Outstanding Debt Per Capita	\$1,333

Chapter 130 also enacted certain publishing requirement for the report. The report will be posted to the JLBC website, along with information on the DOR searchable database.

Table 1

### Lease-Purchase, Bonding, and Payment Deferral Summary <sup>1/</sup>

LEASE-PURCHASE SUMMARY	<u>Overall Balance</u> <sup>2/</sup>	<u>GF Balance</u> <sup>2/</sup>	<u>Overall FY 11 Pymt</u> <sup>3/</sup>	<u>FY 11 Principal Pymt</u> <sup>3/</sup>	<u>FY 11 Interest Pymt</u> <sup>3/</sup>	<u>FY 11 GF Pymt</u> <sup>4/</sup>	<u>FY 11 GF Principal Pymt</u> <sup>4/</sup>	<u>FY 11 GF Interest Pymt</u> <sup>4/</sup>
<b><u>State Building System</u></b>								
2001 A/B Issuance/Refinance (Prisons/ENSCO, Revenue Building, DES Homes, Capital Center)	\$ 2,410,000	\$ 2,266,700	\$ 4,915,500	\$ 4,640,000	\$ 275,500	\$ 4,629,800	\$ 4,370,300	\$ 259,500
2002A Issuance (Health Laboratory/HRIS)	30,585,000	0	7,059,200	5,215,000	1,844,200	0	0	0
2002 B Issuance (16 <sup>th</sup> Ave. Parking, Courts Building, Historical Museum, ASDB Food Service, DES West, Tucson Building)	0	0	25,943,300	25,265,000	678,300	17,360,300	16,906,400	453,900
2004A Issuance/Refinance (Records Management, Library for the Blind, ASDB Projects, 1616 West Adams, Tonto Natural Bridge)	2,880,000	2,285,800	1,824,900	1,650,000	174,900	1,444,500	1,306,000	138,500
2004B Issuance (ADC Prison Expansions)	20,800,000	20,800,000	2,184,200	2,065,000	119,200	2,184,200	2,065,000	119,200
2008A Issuance (ADC Prison Expansions, DHS Forensic Hospital)	220,730,000	220,730,000	19,823,500	9,300,000	10,523,500	19,823,500	9,300,000	10,523,500
<b><u>ABOR Building System</u></b>								
Arizona State University	267,710,000	117,573,400	30,989,900	17,905,000	13,084,900	13,578,900	7,845,500	5,733,400
Northern Arizona University	80,835,000	37,682,600	6,271,900	2,480,000	3,791,900	5,138,700	2,031,900	3,106,800
University of Arizona	<u>459,951,000</u>	<u>202,502,100</u>	<u>37,883,000</u>	<u>15,705,000</u>	<u>22,178,000</u>	<u>14,252,300</u>	<u>5,908,500</u>	<u>8,343,800</u>
Subtotal - ABOR	808,496,000	357,758,100	75,144,800	36,090,000	39,054,800	32,969,900	15,785,900	17,184,000
Phoenix Convention Center <sup>5/</sup>	300,000,000	300,000,000	10,000,000	0	10,000,000	10,000,000	0	10,000,000
<b><i>Subtotal - State Building System</i></b>	<b><i>1,385,901,000</i></b>	<b><i>903,840,600</i></b>	<b><i>146,895,400</i></b>	<b><i>84,225,000</i></b>	<b><i>62,670,400</i></b>	<b><i>88,412,200</i></b>	<b><i>49,733,600</i></b>	<b><i>38,678,600</i></b>
<b><u>Operating</u></b>								
2010 Sale/Leaseback Issuance	998,795,000	998,795,000	52,066,900	0	52,066,900	52,066,900	0	52,066,900
<b><u>School Facilities Board</u></b>								
New School Construction - FY 2003 - FY 2005	633,910,000	633,910,000	41,057,500	9,030,000	32,027,500	41,057,500	9,030,000	32,027,500
New School Construction - FY 2008 - FY 2009	551,035,000	551,035,000	21,047,500		21,047,500	21,047,500	0	21,047,500
FY 2011 New Construction/Refinance	<u>150,110,000</u>	<u>150,110,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - SFB	1,335,055,000	1,335,055,000	62,105,000	9,030,000	53,075,000	62,105,000	9,030,000	53,075,000
<b><i>TOTAL - Lease-Purchase</i></b>	<b><i>\$ 3,719,751,000</i></b>	<b><i>\$3,237,690,600</i></b>	<b><i>\$ 261,067,300</i></b>	<b><i>\$93,255,000</i></b>	<b><i>\$167,812,300</i></b>	<b><i>\$202,584,100</i></b>	<b><i>\$58,763,600</i></b>	<b><i>\$143,820,500</i></b>

(Continued)

(Continued)

<b>BONDING SUMMARY</b>	<b>Overall Balance <sup>2/</sup></b>	<b>GF Balance <sup>2/</sup></b>	<b>Overall FY 11 Pymt. <sup>3/</sup></b>	<b>FY 11 Principal Pymt. <sup>3/</sup></b>	<b>FY 11 Interest Pymt. <sup>3/</sup></b>	<b>FY 11 GF Pymt. <sup>4/</sup></b>	<b>FY 11 GF Principal Pymt. <sup>4/</sup></b>	<b>FY 11 GF Interest Pymt. <sup>4/</sup></b>
School Facilities Board Deficiencies Correction:								
Proposition 301	\$ 471,544,200	\$ 0	\$ 65,841,300 <sup>6/</sup>	\$ 40,753,500 <sup>6/</sup>	\$ 25,087,800 <sup>6/</sup>	\$ 0	\$ 0	\$ 0
State Land Trust - FY 2004	<u>137,870,000</u>	<u>0</u>	<u>24,249,300</u>	<u>16,535,000</u>	<u>7,714,300</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - SFB	609,414,200	0	90,090,600	57,288,500	32,802,100	0	0	0
Department of Transportation <sup>7/</sup>	2,162,380,000	0	259,483,900	151,310,000	108,173,900	0	0	0
<u>ABOR Building System</u>								
Arizona State University	750,895,000	0	74,003,800	40,095,000	33,908,800	0	0	0
Northern Arizona University	335,700,000	0	75,408,800	57,145,000	18,263,800	0	0	0
University of Arizona	<u>637,140,000</u>	<u>0</u>	<u>53,290,000</u>	<u>24,720,000</u>	<u>28,570,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal - ABOR	1,723,735,000	0	\$202,702,600	121,960,000	80,742,600	0	0	0
<b>Operating</b>								
Lottery Revenue Bond <sup>8/</sup>	425,420,000	425,420,000	21,630,000	0	21,630,000	21,630,000	0	21,630,000
<b>TOTAL - Bonding</b>	<b>\$ 4,920,949,200</b>	<b>\$ 425,420,000</b>	<b>\$573,907,100</b>	<b>\$330,558,500</b>	<b>\$243,348,600</b>	<b>\$ 21,630,000</b>	<b>\$ 0</b>	<b>\$21,630,000</b>
<b>TOTAL - Lease-Purchase/Bonds</b>	\$ 8,640,700,200	\$ 3,663,110,600	\$834,974,400	\$423,813,500	\$411,160,900	\$224,214,100	\$58,763,600	\$165,450,500
<b>TOTAL - Payment Deferrals (Table 2)</b>	\$ 1,188,000,000	\$ 1,188,000,000		See Table 2			See Table 2	
<b>TOTAL - Long-Term Obligations</b>	\$ 9,828,700,200	\$ 4,851,110,600	\$834,974,400	\$423,813,500	\$411,160,900	\$224,214,100	\$58,763,600	\$165,450,500

<sup>1/</sup> Pursuant to A.R.S. 41-1277, all information listed is from the FY 2011 Department of Revenue (DOR) Debt Report database, except where noted. The DOR report does not delineate between General Fund and non-General Fund financing. While most issuances have a distinct financing source, in circumstances where this source was unclear the table estimates the GF/Non-GF split using historical averages.

<sup>2/</sup> Represents outstanding principal on the respective lease-purchase agreement or debt issuance, including the portion paid from a General Fund source, which is represented in the "GF Balance" column. Balances are displayed as of the end of FY 2011.

<sup>3/</sup> Represents total FY 2011 lease-purchase or debt service payments from all fund sources, along with the portions of the payments consisting of principal and interest costs. Phoenix Convention Center payments are made into an associated debt service fund according to a statutory formula, and are assumed to be interest only in FY 2011.

<sup>4/</sup> Represents lease-purchase or debt service payments paid from a General Fund source in FY 2011, along with the portions of the payments consisting of principal and interest costs.

<sup>5/</sup> Phoenix Convention Center financing was not included in the DOR Debt Report as the issuance was conducted by the City of Phoenix. However, the state's portion of the financing is displayed above as the payments are long-term obligations of the state.

<sup>6/</sup> School Facilities Board (SFB) Proposition 301 bond payment information reflects debt service schedule provided by SFB.

<sup>7/</sup> Excludes Regional Area Road Fund (RARF) Bonds which are paid from the local Maricopa County regional transportation sales tax.

<sup>8/</sup> Debt service for the Lottery Revenue Bonds is paid for with Lottery profits which would have otherwise been revenues deposited into the General Fund.

Table 2

**Payment Deferral Summary**

<u>Agency</u>	<u>Overall Deferral Balance</u>	<u>Original Due Date(s) of Deferral</u>	<u>Interest Paid to Date for Deferral</u>	<u>Interest Paid in FY 11</u>	<u>Interest to be Paid in FY 12</u>
AHCCCS	\$0 <sup>1/</sup>	N/A	\$173,900 <sup>2/</sup>	\$173,900	\$0
Department of Education	953,000,000	Sept. 2010, Nov. 2010, Feb 2011, April 2011	2,400,100 <sup>2/</sup>	0	0
Department of Economic Security	35,000,000	Not Specified in Law	0	0	0
Universities	200,000,000	Portion of \$200 M deferred monthly	0	0	0
<b>Total</b>	<b>\$1,188,000,000</b>		<b>\$2,574,000</b>	<b>\$173,900</b>	<b>\$0</b>

<sup>1/</sup> The FY 2011 Health Budget Reconciliation Bill (Laws 2010, 7<sup>th</sup> Special Session, Chapter 10, Section 31) provided for the deferment of \$117,688,200 of General Fund payments to health plans. Due to changes in the federal Medicaid match rate, AHCCCS terminated the scheduled FY 2011 rollover and no AHCCCS funding was deferred from FY 2011 to FY 2012.

<sup>2/</sup> Interest was paid for the AHCCCS and ADE payment deferrals in FY 2011 and FY 2008 - FY 2010, respectively.

Table 3

**Per Capita State Debt Historical Summary**

<u>Fiscal Year</u>	<u>Outstanding Principal (Total Funds - \$ in B)</u>	<u>Per-Capita Outstanding</u>	<u>% Change from Prior FY</u>
2004	\$ 4.82	\$ 852	-
2005	4.98	853	0.1%
2006	5.17	858	0.6%
2007	4.89	793	(7.6)%
2008	5.96	949	19.7%
2009	7.29	1,150	21.2%
2010	8.33	1,299	13.0%
2011	8.64	1,333	2.6%

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# **State Debt and Lease-Purchase Financing Report**

**JLBC**

# Laws 2011, Chapter 130 Requires JLBC to Annually Report on State Debt and Other Obligations

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- ❑ Outstanding principal on State debt, along with principal and interest payments in the prior fiscal year (FY 2011)
- ❑ Summary of payment deferrals (“rollovers”) by budget unit and the cost of these deferrals
- ❑ Information on per-capita State debt and other long-term obligations
- ❑ A 10-year history of State debt and long-term financing based on available data

# Arizona Constitution Limits General Fund Backed Debt to \$350,000

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- This limit has been interpreted as applying to debt secured by General Fund revenues
- This interpretation does not apply to debt secured by non-General Fund revenues
  - State has outstanding bonds supported by transportation, lottery and University revenues
- Lease-purchase financing has also been viewed as not applying to the limit – unlike bonds, there is no dedicated source of repayment

# Lease-Purchase Financing vs. Bonds

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- ❑ Lease-purchase financing has no dedicated source of repayment
  - Lease agreements typically have language that payments are “subject to annual appropriation by the State Legislature” and are not “a general obligation or indebtedness of the State”
  - Non-payment would terminate lease and cause loss of property/project
- ❑ Bonds have a dedicated funding source and are secured by non-General Fund source, such as:
  - Lottery Revenue
  - Highway User Fees
  - University Tuition



# Uses For State Debt and Lease-Purchase Financing

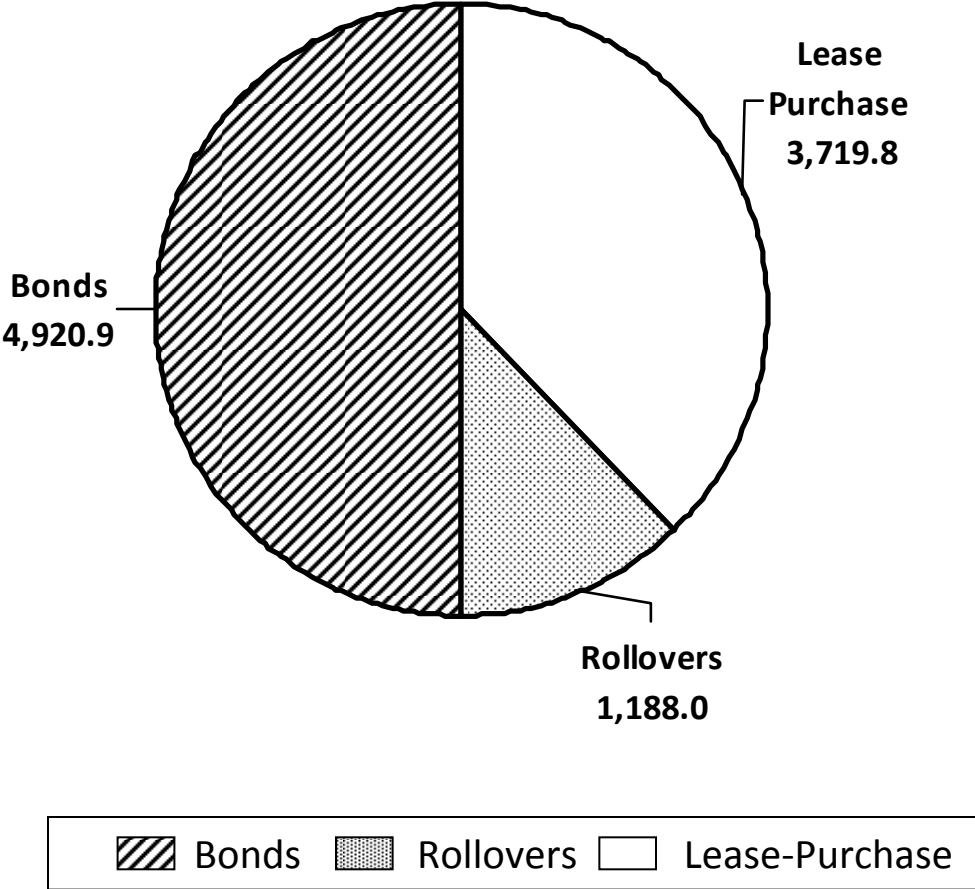
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- State owned capital facilities/uses
- School Facilities Board to fund local new school construction
- Financing has recently been used for operating expenses

# JLBC Report Required To Outline 3 Separate Types of Obligations

- State Has Outstanding Obligations of \$9.8 B Across Rollovers, Lease-Purchase Agreements and Bonds

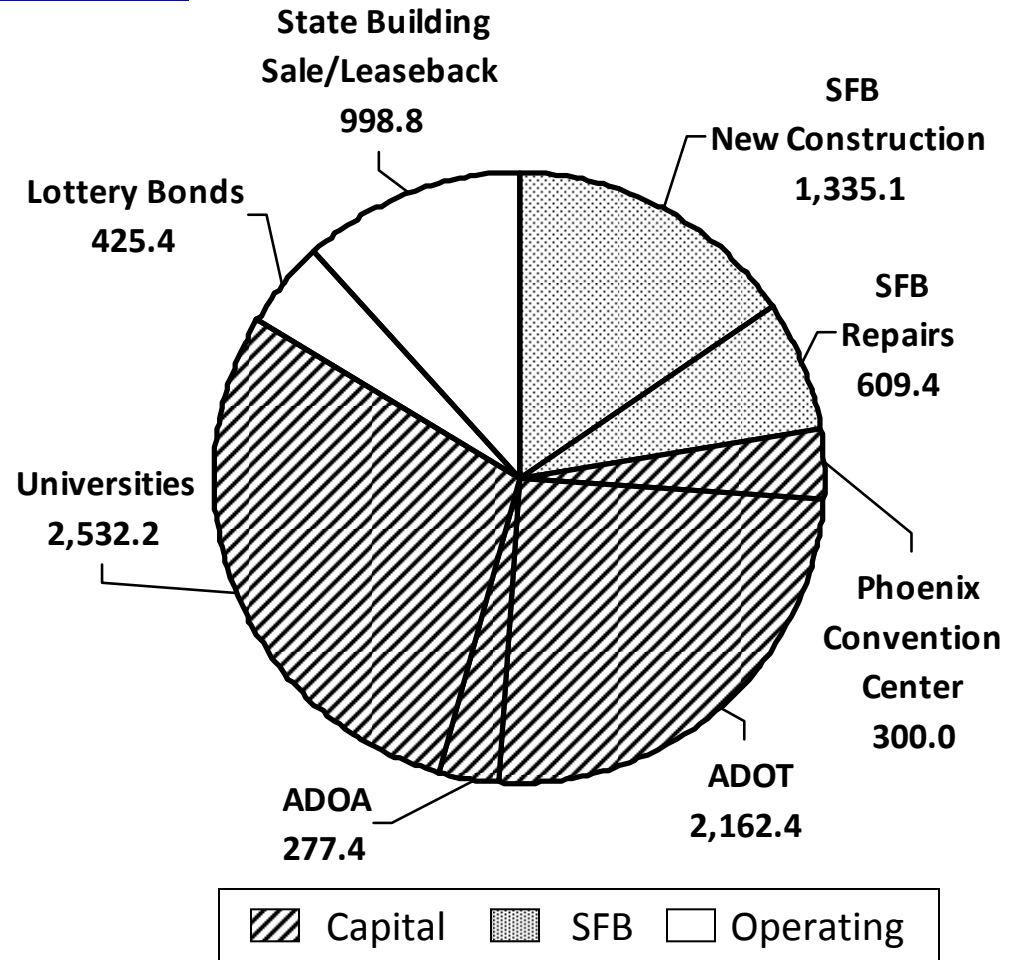
Outstanding	
Lease-Purchase	\$ 3.7 B
Rollovers	\$ 1.2 B
Bonds	\$ 4.9 B



# FY '11 Total Outstanding State Debt/Lease-Purchase Financing Was \$8.6 Billion

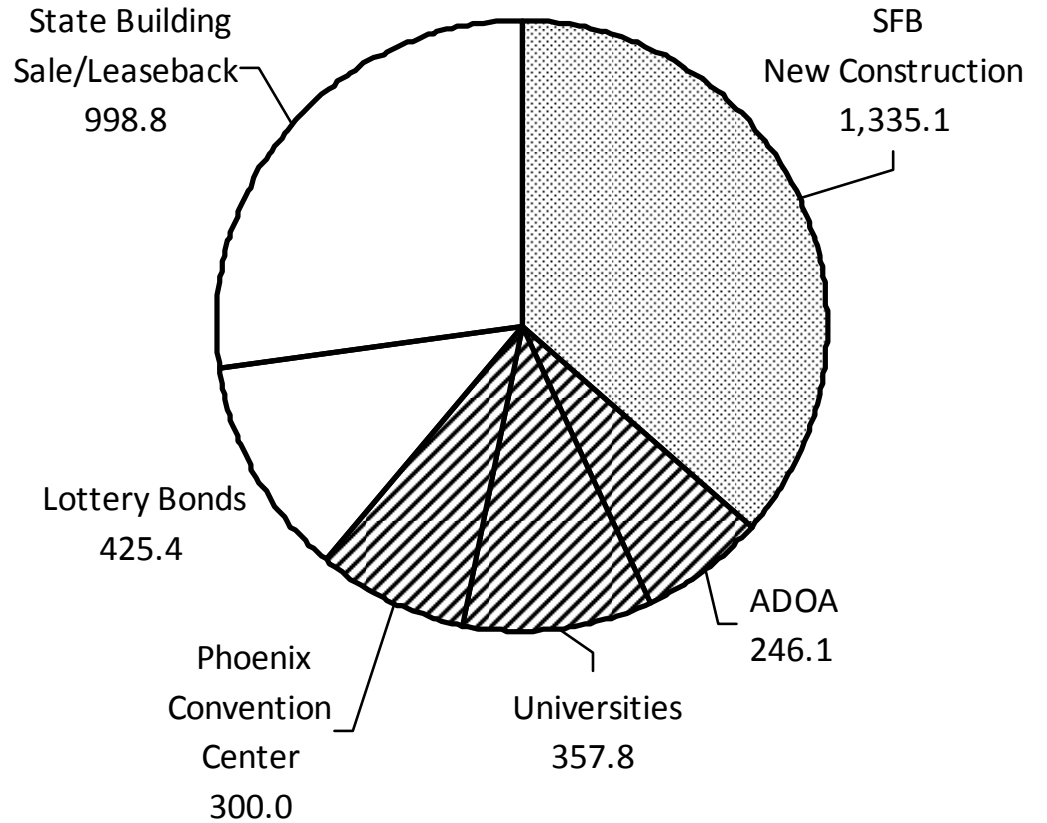
- Reflects Multiple Payment Sources and Excludes Rollovers

Outstanding Balances	
Capital Facilities/Uses	\$ 5.3 B
School Facilities Board	\$ 1.9 B
Operating	\$ 1.4 B



# General Fund Share of Total Outstanding FY '11 Debt/Lease-Purchase Financing Was \$3.7 Billion

Outstanding Balances	
Capital Facilities/Uses	\$ 0.9 B
School Facilities Board	\$ 1.4 B
Operating	\$ 1.4 B



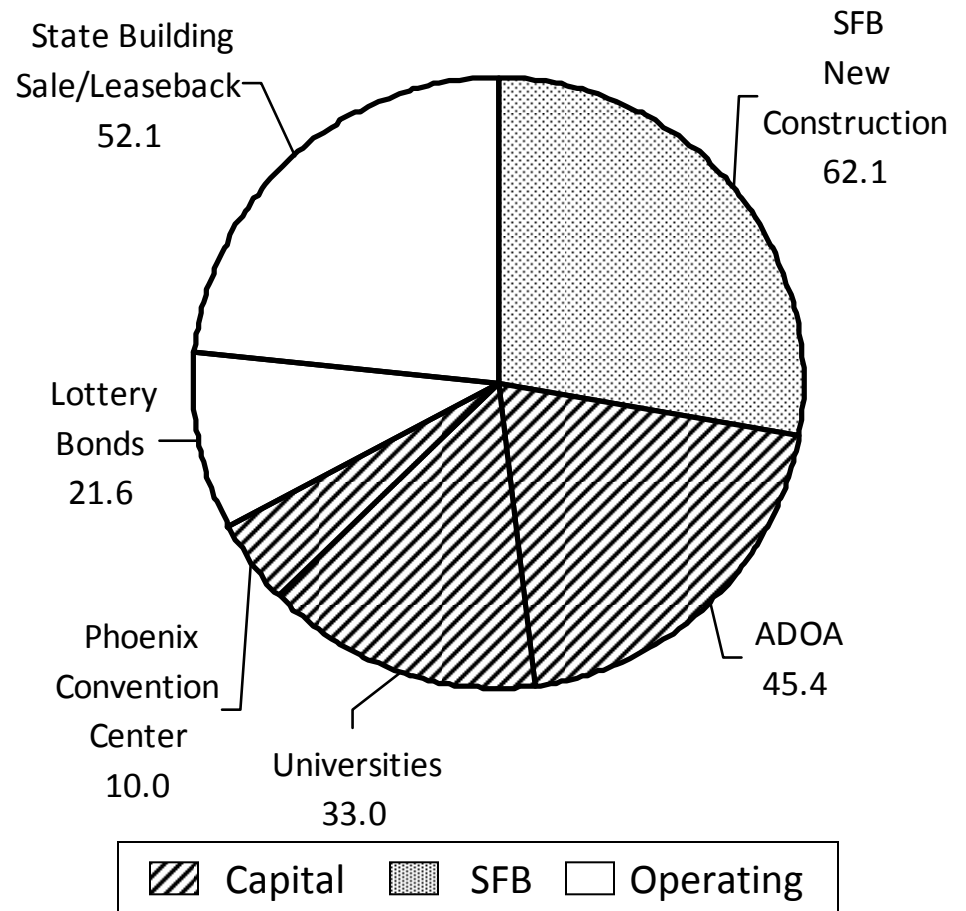
Capital
  SFB
  Operating

\$ in Millions – End of FY 2011

# General Fund Debt Service/Lease-Purchase Financing Cost \$224 M in FY '11

- Represented 7th Largest Budget Unit
- Of This Overall Payment Amount, 74% Was Interest

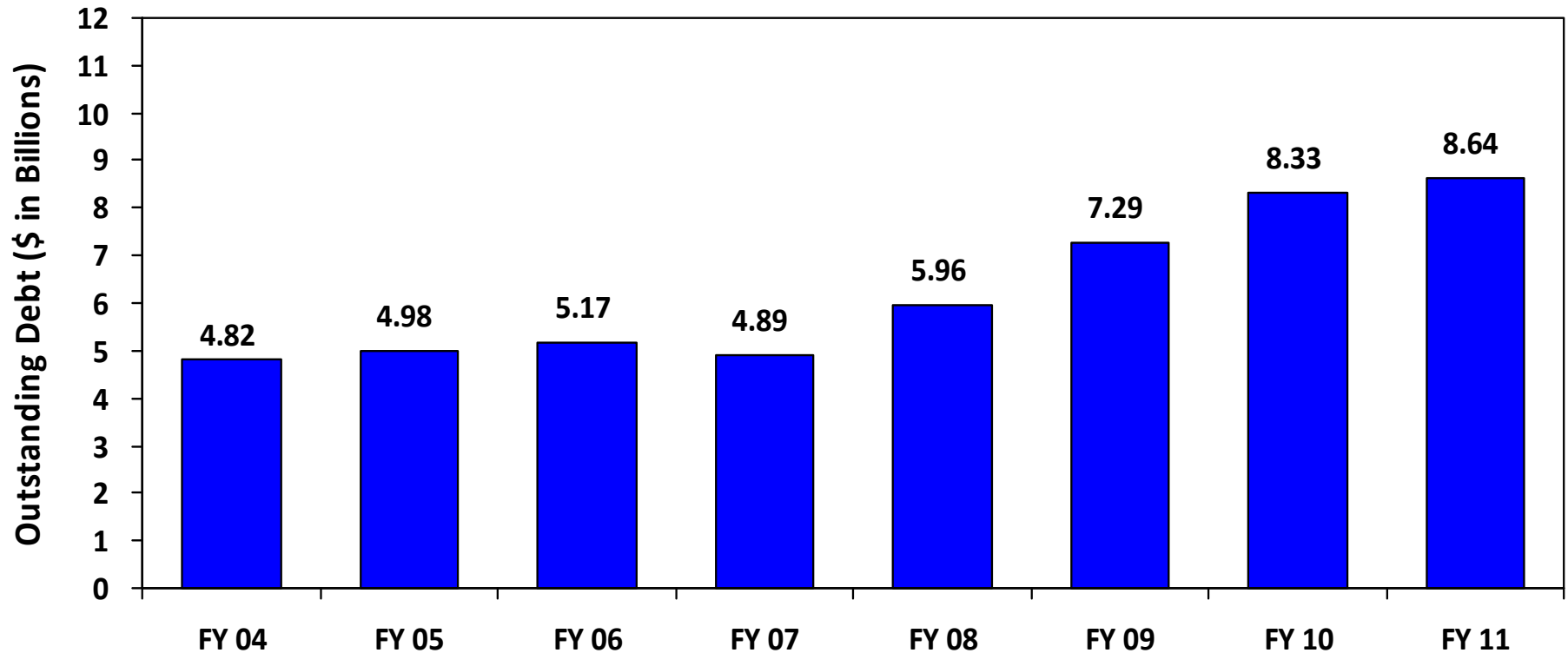
Annual Payments	
Capital Facilities/Uses	\$ 88 M
School Facilities Board	\$ 62 M
Operating	\$ 74 M



\$ in Millions – FY 2011

# Arizona Overall Debt Obligations Have Increased Significantly Over The Last 8 Years

- Increase Is Mostly Due to ADOT, SFB and Operating Financing



# Arizona Per Capita Debt Obligations Since FY '04

- State's Assumption of Financing K-12 Construction and Recent Operating Financing Played A Major Role In Growth

