JLBC Staff Report - FY 2020 Debt and Lease-Purchase Financing Report

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. Due by January 31 of each year, the report is to include the following information from the prior fiscal year (FY 2020):

- 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 2020/FY 2021)
- Historical information on the state's overall debt balance and per capita debt obligations, based on available data.

To the extent possible, A.R.S. § 41-1277 requires data contained in the report to be based on the Department of Administration's *Arizona Report of Bonded Indebtedness*, which is published annually along with an online searchable database.

This report provides a current and historical summary of the state's outstanding financing obligations *(Table 1 and Table 2)*. In addition, it includes specific details on each of the individual financing issuances *(Table 3)* and the state's payment deferrals *(Table 4)*.

The report also contains a slideshow *(Attachment A)* which includes the above information and gives an overall view of the state's methods and process for using long-term financing. The presentation also contains the relative mix of uses for long-term financing (state government facilities, local school district facilities, and operating shortfalls).

Total FY 2020 outstanding bond, lease-purchase and payments deferral balances were $7.61 billion, of which $931 million was related to payments deferrals. Excluding the payment deferrals, the outstanding FY 2020 balance was $6.68 billion. This equates to a per capita amount of $916. In comparison to the FY 2020 level of $6.68 billion, the outstanding FY 2011 balance was $8.64 billion.

The growth in debt to the $8.71 billion peak in FY 2012 was due to several factors: 1) The state's use of long-term financing for the New School Facilities program; 2) An increase in Universities financing activity (both under their general authority and specifically authorized programs such as Lottery-backed issuances); and 3) Operating financing used to solve to the FY 2010 budget shortfall. As of FY 2020, outstanding principal has declined by $2.03 billion since FY 2012. A significant portion of that decline in debt principal occurred during FY 2020, as the state allocated $190 million for an early payoff of the 2010B sale/leaseback and made regularly scheduled debt principal payments of $588 million. In contrast, the state (including the Universities and ADOT) issued a lower-than-normal amount of new debt in the last fiscal year, resulting in the state's overall per capita debt level declining by (13.0)% in FY 2020.

Of the total FY 2020 outstanding balance of $6.68 billion, the General Fund share was $1.40 billion. In FY 2020, the General Fund made debt services payments totaling $310 million, of which 21% was paid towards interest. By comparison, in FY 2019, the General Fund debt service payments totaled $324 million, of which 27% was paid towards interest.

Laws 2017, Chapter 328 established the University Capital Investment Program, which provides annual General Fund appropriations from

FY 2019 – FY 2043 for new university research facilities, building renewal, or other capital construction projects. The universities may use these monies for debt service on infrastructure long-term-financing, with debt issued under this program not to exceed $1.0 billion. For debt issued under this program, debt service is paid 50% with tuition and 50% with General Fund monies. The first debt under this program was issued in FY 2018.

Table 1 below gives a brief summary of the report.

Table 1

State Debt and Financing Summary (As of FY 2020)

Total Outstanding Balance	$ 7.61 B
Total Outstanding Balance (excludes Payment Deferrals)	$ 6.68 B
General Fund Outstanding Balance	$ 1.40 B
FY 2020 General Fund Debt Service	$ 310 M
Interest as a % of General Fund Debt Service	21%
Total Outstanding Balance Per Capita	$ 916

Table 2

Per Capita State Debt Historical Summary

Fiscal Year	Outstanding Principal (Total Funds - $ in B)	Per-Capita Outstanding	% Change from Prior FY
2011	8.64	1,335	2.8%
2012	8.71	1,329	(0.4)%
2013	8.60	1,296	(2.5)%
2014	8.26	1,227	(5.3)%
2015	8.07	1,194	(2.7)%
2016	7.91	1,141	(4.4)%
2017	7.79	1,110	(2.7)%
2018	7.60	1,074	(3.2)%
2019	7.57	1,053	(2.0)%
2020	6.68	916	(13.0)%

Table 3

Lease-Purchase and Bonding Summary 1/

LEASE-PURCHASE SUMMARY	Overall Balance 2/	GF Balance 2/	Overall FY 20 Payment 3/	FY 20 Principal Payment 3/	FY 20 Interest Payment 3/	FY 20 GF Payment 4/	FY 20 GF Principal Payment 4/	FY 20 GF Interest Payment 4/
State Buildings								
2013A Issuance (DHS Building Refinance)	16,860,000	10,116,000	2,116,100	1,300,000	816,100	1,269,700	780,000	489,700
2013B Issuance (Health Lab Refinance/ADC Prison Issuance Refinance)	5,690,000	0	2,032,100	1,705,000	327,100	0	0	0
2015 Issuance (2008A ADC and DHS - Partial)	105,098,100	105,098,100	5,304,900	0	5,304,900	5,304,900	0	5,304,900
2015 A Issuance (PLTO Refinance - Capitol Mall)	38,705,000	10,162,900	6,329,800	5,379,900	949,900	1,662,000	1,412,600	249,400
2016 Issuance (ADC Kingman Refinance)	74,155,000	74,155,000	17,461,700	13,500,000	3,961,700	17,461,700	13,500,000	3,961,700
2017 Issuance (Refinance Balance of 2008A)	4,010,000	4,010,000	14,091,800	13,900,000	191,800	14,091,800	13,900,000	191,800
Subtotal - ADOA	*244,518,100*	*203,542,000*	*47,336,400*	*35,784,900*	*11,551,500*	*39,790,100*	*29,592,600*	*10,197,500*
ABOR Building System								
Arizona State University	231,770,300	112,416,100	27,743,100	18,775,700	8,967,400	13,456,300	9,106,800	4,349,500
Northern Arizona University	42,210,000	42,210,000	5,899,500	3,730,000	2,169,500	5,899,500	3,730,000	2,169,500
University of Arizona	212,645,700	64,857,900	46,721,300	35,086,200	11,635,100	14,250,200	10,701,400	3,548,800
Subtotal - ABOR	*486,626,000*	*219,484,000*	*80,363,900*	*57,591,900*	*22,772,000*	*33,606,000*	*23,538,200*	*10,067,800*
Other								
Phoenix Convention Center 5/	254,350,400	254,350,400	23,500,000	21,584,600	1,915,400	23,500,000	21,584,600	1,915,400
Subtotal - State Building System	***$985,494,500***	***$677,376,400***	***$151,200,300***	***$114,961,400***	***$36,238,900***	***$96,896,100***	***$74,715,400***	***$22,180,700***
Operating Shortfall								
2010 A/B and 2019A Refinance Sale/Leaseback Issuances	422,635,000	422,635,000	77,699,100	51,935,000	25,764,100	77,699,100	51,935,000	25,764,100
School Facilities Board								
2010 Qualified School Construction Bonds	40,231,100	40,231,100	9,938,100	5,028,900	4,909,200	9,938,100	5,028,900	4,909,200
2010 Refinance (FY 2011)	0	0	41,633,400	40,685,000	948,400	41,633,400	40,685,000	948,400
2013 Refinance	0	0	4,817,300	4,700,000	117,300	4,817,300	4,700,000	117,300
2014 Refinance	0	0	18,244,400	18,030,000	214,400	18,244,400	18,030,000	214,400
2015 Refinance	210,890,000	210,890,000	57,237,000	46,945,000	10,292,000	57,237,000	46,945,000	10,292,000
Subtotal - SFB	*251,121,100*	*251,121,100*	*131,870,200*	*115,388,900*	*16,481,300*	*131,870,200*	*115,388,900*	*16,481,300*
TOTAL - Lease-Purchase	***$1,659,250,600***	***$1,351,132,500***	***$360,769,600***	***$282,285,300***	***$78,484,300***	***$306,465,400***	***$242,039,300***	***$64,426,100***

Table 3 (Cont'd)

	Overall Balance 2/	GF Balance 2/	Overall FY 20 Payment 3/	FY 20 Principal Payment 3/	FY 20 Interest Payment 3/	FY 20 GF Payment 4/	FY 20 GF Principal Payment 4/	FY 20 GF Interest Payment 4/
Bonding Summary								
School Facilities Board								
Deficiencies Correction - Proposition 301	$0	$0	$64,125,400	$62,865,000	$1,260,400	$0	$0	$0
Department of Transportation 6/	1,435,220,000	0	173,533,600	106,815,000	66,718,600	0	0	0
ABOR Building System 7/								
Arizona State University	1,643,390,000	40,180,800	126,638,200	53,935,000	72,703,200	3,096,300	1,318,700	1,777,600
Northern Arizona University	531,805,000	0	41,748,400	18,435,000	23,313,400	0	0	0
University of Arizona	1,168,675,000	6,642,700	96,586,900	39,360,000	57,226,900	549,000	223,700	325,300
Subtotal - ABOR	*3,343,870,000*	*46,823,500*	*264,973,500*	*111,730,000*	*153,243,500*	*3,645,300*	*1,542,400*	*2,102,900*
Operating Shortfall								
Lottery Revenue Bonds 2010/ 2019 Refinance 8/	245,295,000	0	34,511,900	24,210,000	10,301,900	0	0	0
TOTAL - Bonding	***$5,024,385,000***	***$46,823,500***	***$537,144,400***	***$305,620,000***	***$231,524,400***	***$3,645,300***	***$1,542,400***	***$2,102,900***
TOTAL - Lease-Purchase & Bonding	**$6,683,635,600**	**$1,397,956,000**	**$897,914,000**	**$587,905,300**	**$310,008,700**	**$310,110,700**	**$243,581,700**	**$66,529,000**
TOTAL - Payment Deferrals	**$930,727,700**	**$930,727,700**						
TOTAL ALL OBLIGATIONS	**$7,614,363,300**	**$2,328,683,700**	**$897,914,000**	**$587,905,300**	**$310,008,700**	**$310,110,700**	**$243,581,700**	**$66,529,000**

1/ Pursuant to A.R.S. § 41-1277, all information listed is from the FY 2020 Arizona Department of Administration Bonded Indebtedness Report, except where noted. The Arizona Department of Administration 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.
2/ 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 2020.
3/ Represents total FY 2020 lease-purchase or debt service payments from all fund sources, along with the portions of the payments consisting of principal and interest costs.
4/ Represents lease-purchase or debt service payments paid from a General Fund source in FY 2020, along with the portions of the payments consisting of principal and interest costs.
5/ Phoenix Convention Center financing was not included in the Arizona Department of Administration Bonded Indebtedness Report as the issuance was made 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.
6/ Excludes Regional Area Road Fund (RARF) Bonds which are paid from the local Maricopa County regional transportation sales tax.
7/ The General Fund portion of ABOR Building System bond issuances reflects monies appropriated through the University Capital Investment Program that are used for debt service.
8/ 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 4

Payment Deferral Summary

Agency	FY 2020 Overall Deferral Balance	Original Due Date(s) of Deferral	Interest Paid to Date for Deferral	Interest Paid in FY 20	Interest to be Paid in FY 21
Department of Education	930,727,700 1/2/	$273 M in FY 2008, $330 M in FY 2009, $350 M in FY 2010, and $21.9 M paid in FY 2013.	2,400,100 3/	0	0
Total	**$930,727,700**		**$2,400,100**	**$0**	**$0**

1/ Laws 2013, 1st Special Session, Chapter 1 reduced the outstanding payment deferral by $(21,900,000) by eliminating the deferral for school districts and charter schools with less than 600 pupils.
2/ The enacted FY 2020 budget advance appropriated $30,000,000 to eliminate the deferral for school districts and charter schools between 600 and 1,350 pupils starting in FY 2022. (The rollover had previously been eliminated for school districts and charter schools with less than 600 pupils.) After FY 2022, the remaining rollover would be $900,727,700.
3/ Interest was paid for the ADE payment deferral in FY 2008 - FY 2010.

Explanation of Issuances

Lease-Purchase Summary

<u>State Buildings</u>

<u>ADOA Building System – Lease-Purchase</u>

2008 A (Retired) – Laws 2007, Chapter 261 authorized 4,000 new public prison beds through a $200.0 million lease-purchase agreement. Laws 2007, Chapter 257 authorized a $39.0 million lease-purchase agreement for the following 2 projects: $32.2 million for a new forensic hospital unit at the Arizona State Hospital and $6.8 million for water supply projects at 4 prison complexes.

The total $239.0 million in agreements was issued in April 2008; the prison beds have a 20-year term while the forensic unit and water projects have a 15-year term. While Chapter 261 authorized 4,000 beds, the department was able to construct and open 5,000 beds in FY 2011 - 1,250 beds at Perryville SPC, 1,250 beds at Tucson SPC, and 2,500 beds at Yuma SPC.

The 2015 lease-purchase agreement refinanced a portion of the outstanding 2008A ADC lease-purchase financing. *(Please see the 2015 section below for more information)*. In 2017, the remaining 2008A issuance that was not part of the 2015 lease-purchase agreement was refinanced. The new lease-purchase agreement was favorably reviewed by JCCR in June 2017. The refinancing of $31.6 million in outstanding principal obligations is estimated to result in a total savings of $1.6 million through FY 2028.

2013 A – Issued in January 2013, the 2013 A lease-purchase transaction refinanced the privatized lease-to-own (PLTO) agreement (executed in 2001) which had initially funded the DHS office building at 150 North 18th Avenue. The refinancing transaction reduced the existing payment schedule for the building by approximately $(330,000) annually through FY 2029. While a PLTO agreement usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in FY 2029.

2013 B – Issued in January 2013, the 2013 B transaction refinanced the 2 existing lease-purchase transactions (2002 A and 2004 B). The refinancing transaction reduced the existing payment schedule for these buildings by approximately $(390,000) annually through FY 2019.

2015 – Issued in July 2015, the 2015 transaction refinanced a portion of the 2008 A transaction. The refinancing transaction reduced the existing payment schedule for these buildings by approximately $(950,000) annually through FY 2028.

2015 A – Issued in July 2015, the 2015 A lease-purchase transaction refinanced the privatized lease-to-own (PLTO) agreement (executed in 2005) which had initially funded the 2 office buildings on the Capitol Mall. The 2 buildings house ADOA and the Department of Environmental Quality. The refinancing transaction reduced the existing payment schedule for the building by approximately $(480,000) annually through FY 2028. While a PLTO agreement usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in FY 2029. As a result of the refinanced ADOA and ADEQ buildings, the state currently has no active PLTO agreements.

2016 – Issued in November 2016, the 2016 issuance refinanced the Arizona Department of Corrections (ADC) Kingman private prison. This generated a net savings of $8.8 million. The state will now make direct debt service payments. Prior to the refinancing, the payment was included in the overall funding amount for a private vendor.

2017 – Issued in September 2017, the 2017 transaction refinanced the remaining balance of the 2008 A transaction. This will generate a net savings of $1.6 million.

<u>ABOR Building System – Lease-Purchase</u>

Arizona Board of Regents (ABOR) – Laws 2003, Chapter 267 appropriated $34.6 million from the state General Fund to the universities to be used to finance lease-purchase payments from FY 2008 to FY 2031 for research infrastructure project agreements entered into prior to July 1, 2006. These projects include science and technology buildings and the debt service payments are made from annual General Fund appropriations. Laws 2016, Chapter 130 modified statute to reflect long-term debt service savings from the refinancing of research infrastructure projects and specified appropriations through the end of the debt service in FY 2031.

<u>Other</u>

Phoenix Convention Center – While not a state building, the Phoenix Convention Center represents a state obligation. Laws 2003, Chapter 266 authorized the state to make distributions to provide for the debt service related to the financing of certain convention center projects, provided that the state funding would account for no more than 50% of the total project cost and would not exceed $300 million. Funding of the Phoenix Convention Center project was approved by Phoenix voters in 2001, and the renovation and expansion of the center subsequently qualified as an eligible project. In 2005, the City of Phoenix issued $600 million of bonds, 50% of which were to be paid from the state share of funding, with payments beginning in FY 2012 for a term of 33 years. The state distribution occurs according to a statutory schedule, which was modified by Laws 2011, Chapter 28. The Convention Center expansion was completed in 2009.

Operating Shortfall

2010 A/B and 2019A Refinance State Building Sale/Leaseback – FY 2010 budget legislation (Laws 2009, 3rd Special Session, Chapter 6 and Laws 2010, 6th Special Session, Chapter 4) authorized the Arizona Department of Administration (ADOA) to enter into sale/lease-back agreements for 22 existing state-owned facilities, requiring the funds to be deposited to the General Fund to subsidize state operating expenses. ADOA sold the issuances in 2 series (January 2010 and June 2010) at a tax-exempt yield of approximately 4%. These issuances range up to 20 years in period of time.

The transaction generated $1.04 billion of up-front proceeds, in exchange for annual lease payments through the term of the agreements. While the titles of the buildings were used as collateral for the financing, the state maintains operational control of the facilities. Upon the expiration of the agreements, the legal titles to the buildings will be transferred back to the state.

When the financing was originally issued, the state agreed to the Working Capital Surplus Limitation, which would have required certain cash reserves to be used for mandatory repayment of the financing. Given the concerns about the mandatory repayment, the state converted to the Investment Yield Restriction in May 2014. The selection of this limitation is irrevocable for the duration of the financing. Because the state is no longer subject to the mandatory repayment requirements of the Working Capital Surplus Limitation, the operating financing was not subject to prepayment by the state until FY 2020. *(Please see the FY 2017 JLBC Baseline Summary for more information on these requirements.)*

In January 2019, ADOA refinanced the 2010A Leaseback agreements originally issued in January 2010. This refinancing will result in annual savings of approximately $6.4 million throughout the term of the bonds for a total savings of $70.4 million. The financing will still be paid off in FY 2030.

The FY 2020 budget appropriated $190.0 million from the General Fund to retire the 2010B sale/leaseback financing issued in June 2010. The debt payoff decreases total debt service spending by $240.0 million from FY 2021 to FY 2030, resulting in a net savings of $50.0 million through FY 2030 after transaction costs. This had no impact on the $24.0 million in debt service payments that were paid during FY 2020.

School Facilities Board – Lease-Purchase

SFB – The School Facilities Board (SFB) is responsible for providing capital funding for K-12 school districts within the state. A.R.S. § 15-2004 authorizes SFB generally to enter into lease-purchase financing agreements in order to provide funding for the agency's New School Facilities program. However, these transactions have been prohibited since May 2006, except in cases of specific legislative authorization. SFB has entered into 6 broad types of lease-purchase financing agreements.

- **New Construction Financing 2008 – 2009 (Retired)** – This group of financing was issued as traditional tax-exempt Certificates of Participation. While in some years SFB New Construction has been paid for with cash financing, in certain years the Legislature has authorized SFB to enter into lease-purchase agreements. In FY 2008/2009, SFB entered into a lease-purchase agreement with a principal amount of $580.0 million for a term of 15 years. Final payments on the agreements were made in FY 2019.

- **2010 Qualified School Construction Bonds** – Authorized by Laws 2010, 3rd Special Session, Chapter 12, SFB entered into $91.3 million worth of lease-purchase financing through a federal program known as Qualified School Construction Bonds. This type of financing entitles the state to interest rate subsidy from the federal government, which amounts to 4.86% of the 6.0% due on the bonds, leaving the state with an effective interest rate of 1.14%. Beginning in FY 2014, the subsidy was reduced due to federal budget reductions.

- **2010 SFB Refinance** – Authorized by Laws 2010, 7th Special Session, Section 20, SFB entered into a refinancing agreement whereby $58.8 million of new financing was issued, and the cash proceeds were used to lower the agency's FY 2011 debt service obligations to achieve one-time savings. Through FY 2018, the state paid approximately $2.4 million of interest annually, until the principal amount was paid in installments during both FY 2019 and FY 2020.

- **2013 SFB Refinance –** Authorized by Laws 2013, 1st Special Session, Chapter 3, SFB entered into a refinancing agreement whereby $79.6 million of new financing was issued, and the cash proceeds were used to refinance a portion of the outstanding 2003 and 2004 agreements and lower the agency's FY 2014 and FY 2015 debt service obligations to achieve non-recurring savings of $1.4 million in FY 2014 and $3.8 million in FY 2015.

- **2014 SFB Refinance** – Authorized by Laws 2013, 1st Special Session, Chapter 3, SFB entered into a second refinancing agreement whereby $226.1 million of new financing was issued, and the cash proceeds were used to refinance a portion of the outstanding 2005 agreements and lower the agency's debt service obligations to achieve non-recurring savings of $9.4 million in FY 2015 along with approximately $100,000 annually between FY 2016 and FY 2020.

- **2015 SFB Refinance** – Authorized by Laws 2015, 1st Special Session, Chapter 15, SFB entered into a refinancing agreement whereby $263.5 million of new financing was issued, and the cash proceeds were used to refinance a portion of the outstanding 2008 agreements and lower the agency's debt service obligations to achieve debt service savings of approximately $1.7 million annually through the end of the issuance in FY 2024.

Bonding Summary

School Facilities Board

In addition to the agency's general lease-purchase authority, SFB was authorized to issue revenue bonds, to be paid for with a dedicated source of funding:

- **Proposition 301 Bonds (State School Improvement Revenue Bonds)** – Proposition 301, approved by voters in 2000, authorized SFB to issue up to $800 million of revenue bonds to finance its Deficiencies Correction program which made school repairs statewide. The bonds were issued in this amount during FY 2001 – FY 2003 and are paid from the 0.6% sales tax enacted by the ballot measure. The term of the bonds runs through FY 2021, which coincides with the expiration of the measure's sales tax, at which point the entire original issuance will have been retired. Laws 2018, Chapter 74 extends the Proposition 301 sales tax through FY 2041, however, it removes the allocation for debt service as the bonds will be retired.

- **State Land Trust Bonds (School Trust Revenue Bonds) [Retired]** – Laws 2003, Chapter 264 authorized SFB to issue $246.6 million of State School Trust revenue bonds to provide further funding for the Deficiencies Correction program. Debt service on the bonds is paid from expendable earnings of the state's land trust, which consists of monies received from the sale or lease of state school trust lands and investment earnings in the fund. Earnings from this fund are first used to fund payments related to the SFB trust revenue bonds, with any excess funds above this amount transferred to the Department of Education. The bonds were issued with a term of 15 years and were retired in FY 2018.

Department of Transportation

Financing largely consists of 2 broad categories:

- Highway User Revenue Fund (HURF) bonds are used to finance the State Transportation Board's 5-year construction program. HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest, such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, driver's license, and others. In order for the department to issue subordinate HURF bonds, State Highway Fund revenues must exceed 3 times the maximum annual debt service on current outstanding debt. The State Highway Fund is the source of debt service for HURF bonds.

- Grant Anticipation Notes (GAN) allow ADOT to issue debt secured by future federal aid for the purposes of accelerating or advancing mostly large highway construction projects. Federal Funds are the source of debt service for GANs.

ABOR Building System

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and certificates of participation of up to 8% of each institution's total projected annual expenditures. Universities fund revenue bond debt service payments with university system revenues. While tuition represents the primary source of these revenues, they may also be directly related to the capital project. For instance, the debt service payments for renovations to a student recreation center may be paid for with student recreation fees.

Laws 2008, Chapter 287, as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9, authorized ABOR to enter into lease-to-own and bond transactions up to $800 million to pay for building renewal projects and new facilities with university lottery bonds (also known as SPEED bonds). ABOR is required to allocate $376.0 million of the $800.0 million for the Phoenix Biomedical Campus. Of the remaining $424.0 million in proceeds, ABOR allocated $16.0 million to ASU's School of Construction and $136.0 million to each of the 3 universities for building renewal, deferred maintenance, and new construction projects. Under Chapter 287, the annual debt payments are comprised of up to 80% lottery revenues and at least 20% university system revenues. *(Please see the Arizona Board Regents Building Systems narrative pages in the FY 2020 JLBC Baseline for more information.)*

Laws 2017, Chapter 328 established the University Capital Investment Program, which provides General Fund appropriations from FY 2019 – FY 2043 for new university research facilities, building renewal, or other capital construction projects. The law appropriates $27,000,000 to the universities in FY 2019 and increases the appropriation each year thereafter by 2% or the rate of inflation, whichever is less. The universities may use these monies for debt service on infrastructure long-term-financing and for cash construction costs. New debt issued under this program may not exceed $1.0 billion. Each university will match any General Fund contributions that are used for debt service payments at a 1:1 rate.

Operating Shortfall

Lottery Revenue Bonds 2010/2019 Refinance – FY 2010 budget legislation (Laws 2010, 6th Special Session, Chapter 4) authorized the department to issue Lottery revenue bonds, which generated $450 million of up front proceeds for the state, in exchange for fixed payments over a 20-year term. Under A.R.S. § 5-572, the funds necessary to make debt service payments relating to the lottery revenue bonds receive the first priority in the distribution of lottery profits and are taken from monies that would have otherwise been transferred to the General Fund.

When the Lottery Revenue Bonds were originally issued, the state agreed to the Working Capital Surplus Limitation, which would have required certain cash reserves to be used for mandatory repayment of the issuance. Given the concerns about the mandatory repayment, the state converted to the Investment Yield Restriction in May 2014. The selection of this limitation is irrevocable for the duration of the financing. Because the state is no longer subject to the mandatory repayment requirements of the Working Capital Surplus Limitation, the

Lottery Revenue Bonds are not subject to prepayment by the state until FY 2020. *(Please see the FY 2017 JLBC Baseline Summary for more information on these requirements.)*

In December 2018, ADOA refinanced the 2010 Lottery Revenue Bonds. Laws 2010, Sixth Special Session, Chapter 4 authorizes ADOA to refinance these bonds in later years without additional legislative approval. This refinancing will result in annual savings of approximately $3.0 million throughout the term of the bonds for a total savings of $29.9 million. The financing will still be paid off in FY 2029.

Attachment A

Report on State Debt and Lease-Purchase Financing

JLBC

Debt Overview

JLBC

Statute Requires JLBC to Annually Report on State Debt and Other Obligations

- Outstanding principal on State debt, along with principal and interest payments in the prior fiscal year (FY 2020)
- 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

Summary of Arizona's Credit Rating

- In May 2015, both major credit rating agencies upgraded AZ's credit rating (S&P: AA- to AA; Moody's: Aa3 to Aa2)

- In November 2019, Moody's upgraded Arizona's credit rating to Aa1.

- 15 states have a higher rating, 15 have the same rating, and 17 have a lower rating or are not rated.

Uses For State Debt and Lease-Purchase Financing

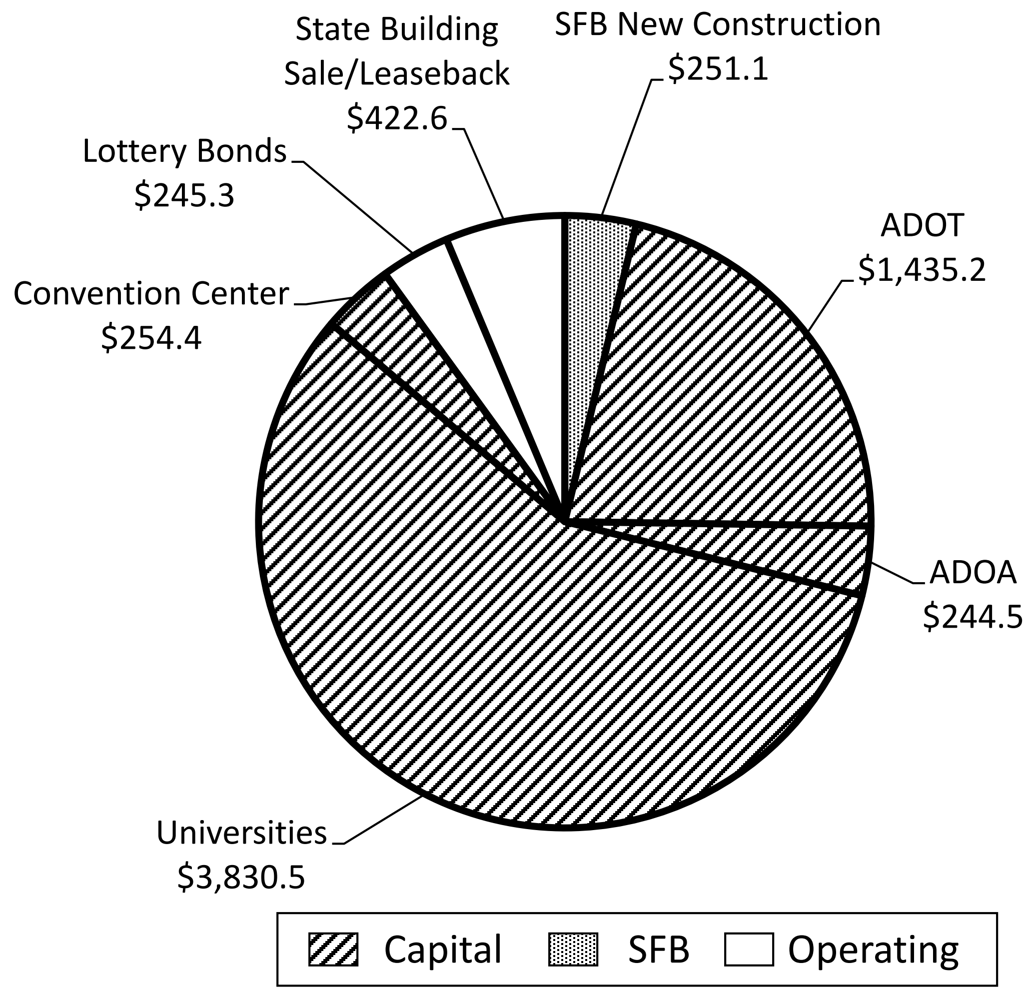
- State owned capital facilities/uses
- School Facilities Board to fund local new school construction
- During budget shortfalls, financing has been used for operating expenses – Building Sale/Leaseback and Lottery Revenue Bonds

Debt Balance and Payment Information

Total Outstanding State Debt/Lease-Purchase Financing is $6.7 Billion
- Reflects Multiple Payment Sources

Outstanding Balances

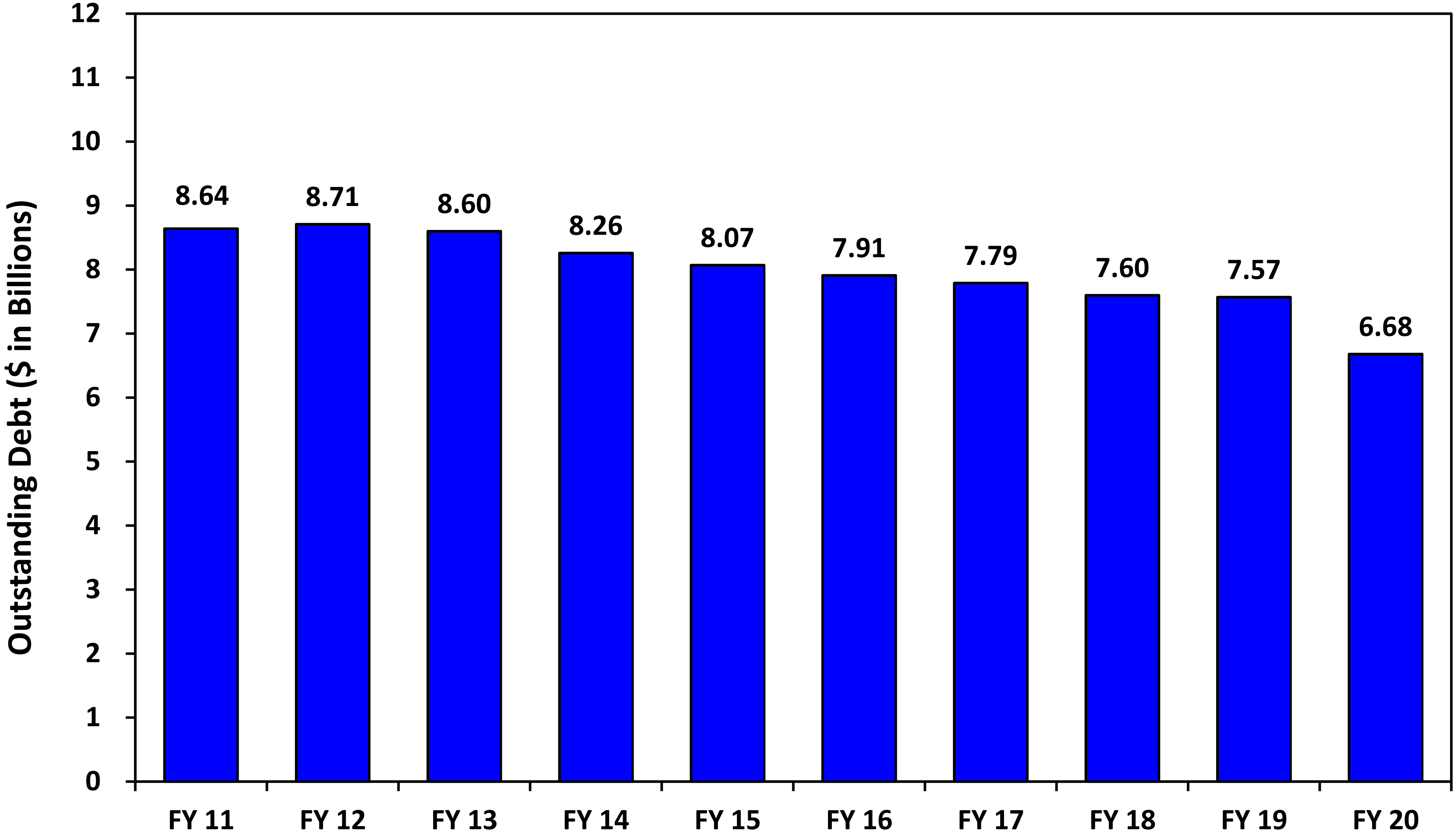
	$ in B
Capital Facilities/Uses	5.7
School Facilities Board	0.3
2010 Operating Expenses	0.7



End of FY 2020 - $ in Millions

JLBC

Arizona Overall Debt Obligations Peaked in '12

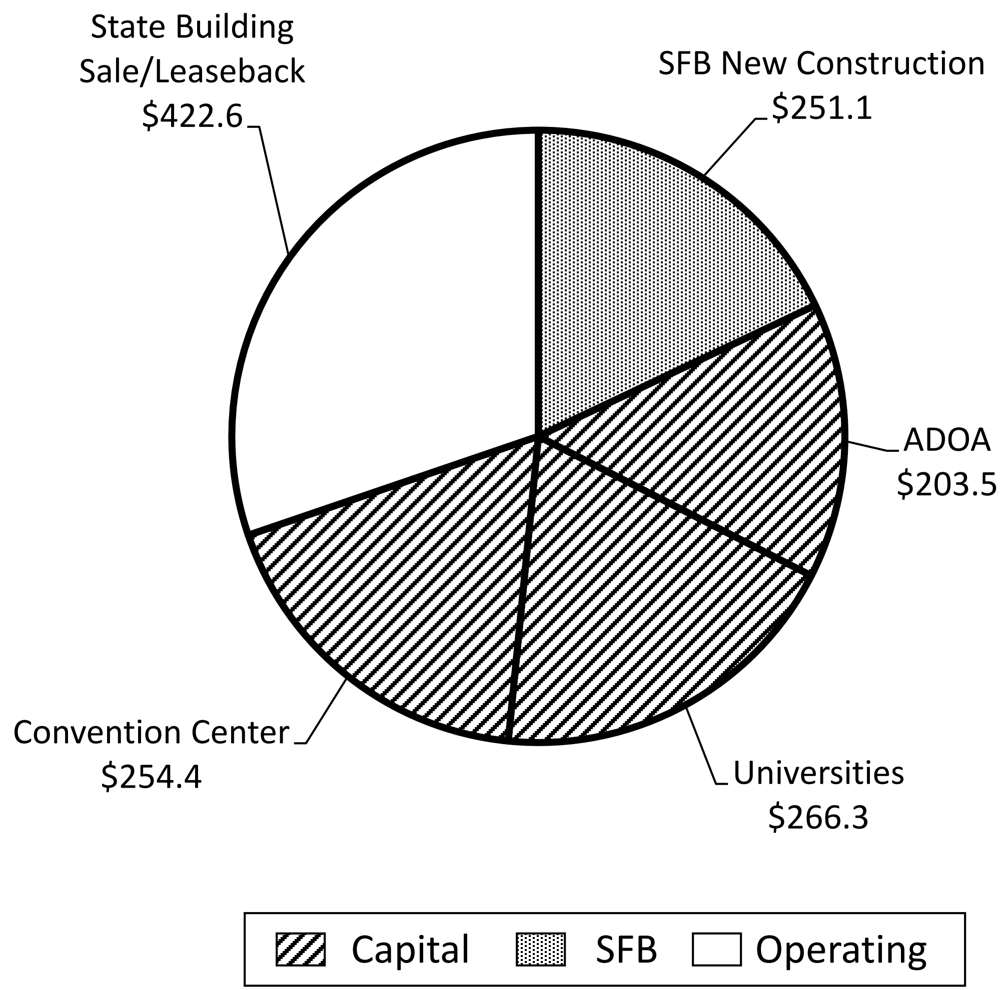


JLBC

General Fund Share of Outstanding Balances Is $1.4 B

Outstanding Balances

	$ in M
Capital Facilities/Uses	724
School Facilities Board	251
2010 Operating Expenses	423



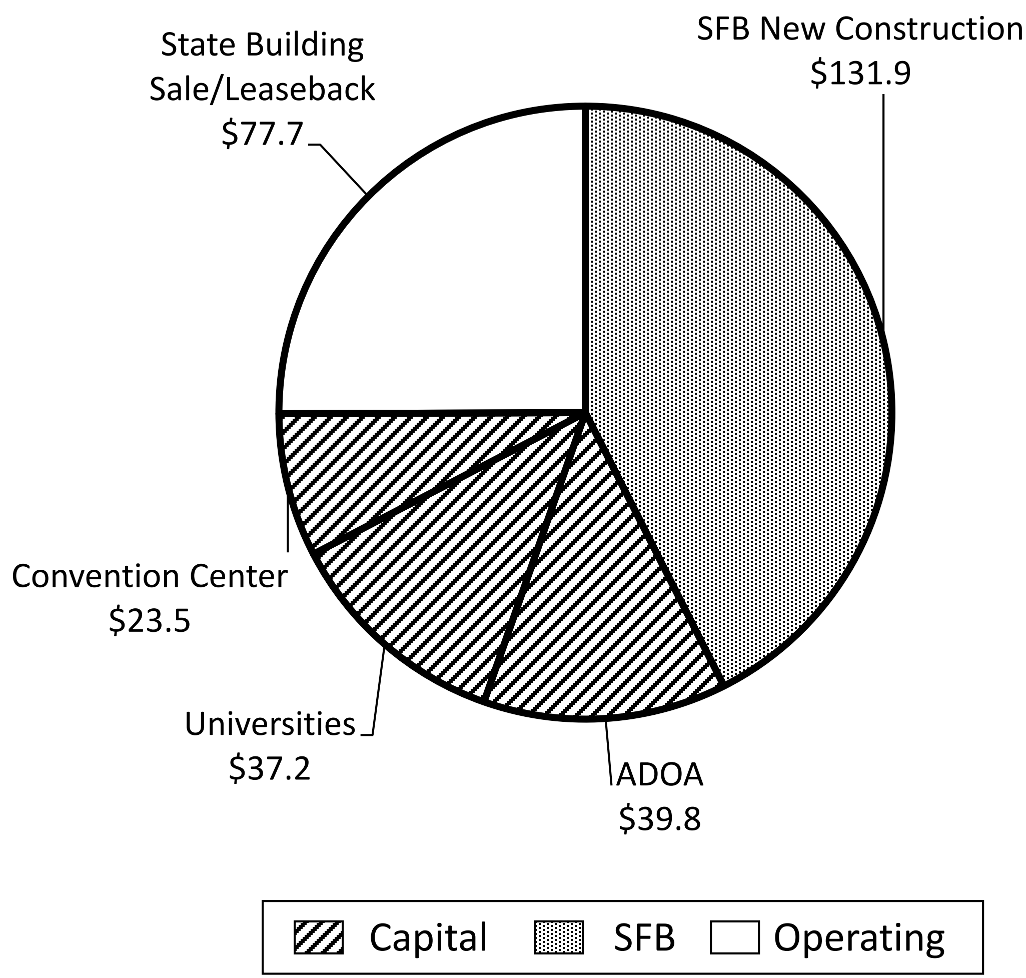
End of FY 2020 - $ in Millions

JLBC

General Fund Debt Service Cost $310 M

Annual Payments

	$ in M
Capital Facilities/Uses	100
School Facilities Board	132
2010 Operating Expenses	78



FY 2020 - $ in Millions

State Defers $931 M of K-12 Payments Annually

- Interest Is Not Paid By the State For Rollovers

- Used for one-time solutions during years with significant budget shortfalls – at its highest, the state had $1.3 B of active rollovers in FY 2011
- Only K-12 rollover now remains
- Repayment of part or all of K-12 rollover would incur one-time GF cost
- FY 2020 budget allocated $30 M in FY 2022 to eliminate deferral for districts/charters with between 600 and 1,350 pupils; had previously been eliminated for less than 600

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