



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 785

PRINTERS NO. 2537

PRIME SPONSOR: Saylor

COST / (SAVINGS)

FUND	FY 2017/18	FY 2018/19
General Fund	See Fiscal Impact	See Fiscal Impact

SUMMARY:

House Bill 785, printer's number 2537, amends the act of February 9, 1999 (P.L. 1, No. 1), known as the Capital Facilities Debt Enabling Act.

The effective date is retroactive to July 1, 2017, for the provisions of the bill that address annual release limits, and immediately for the remainder of the bill.

ANALYSIS:

The bill amends the Capital Facilities Debt Enabling Act as follows:

- Section 307(c)(3) is amended to require that, except in cases of a refunding bond issuance, all debt amortization must be done using an equal annual maturities plan (level principal payments over the life of the bonds).
- Section 307(c)(4.1), which allows the issuing officials to enter into agreements or contracts to insure or secure payment of principal, interest or the purchase price of bonds to assist in managing the interest costs of the debt of the Commonwealth, is removed from the Act.
- Section 317(b) is amended to reduce the maximum amount of redevelopment assistance capital project (RACP) debt that may be outstanding by \$250,000,000 to \$3,200,000,000. The reduction shall occur in \$50,000,000 increments over a 5-year period beginning July 1, 2017.
- Section 317(b) is also amended by adding a subsection to annually limit the release of new capital projects financed by debt. Beginning July 1, 2017, and each fiscal year thereafter, public improvement project releases shall not exceed \$350,000,000 per year, and RACP releases shall not exceed \$125,000,000 per year.

Any unused fiscal year allocation may be carried forward and added to the following fiscal year's limitation, but the amount carried forward may not exceed half of the total amount authorized to be released for that project category for the previous fiscal year.

- A new chapter is added to provide for capital budgets (bond authorizations) for particular fiscal years. A subchapter is added to provide for the Capital Budget Act of 2017-18. There was no Capital Budget Act enacted for 2016-17.

CATEGORY	FY 2015-2016	HB 785 FY 2017-2018	INC/(DEC)
Public Improvement Projects – Buildings & Structures	\$750,000,000	\$680,000,000	(\$70,000,000)
Public Improvement Projects – Furniture & Equipment	\$20,000,000	\$10,000,000	(\$10,000,000)
Transportation Assistance	\$175,000,000	\$350,000,000	\$175,000,000
Redevelopment Assistance	\$335,000,000	\$175,000,000	(\$160,000,000)
Flood Control Projects	\$10,000,000	\$10,000,000	\$0
TOTAL	\$1,290,000,000	\$1,225,000,000	(\$65,000,000)

FISCAL IMPACT:

In addition to the amortization of the principal amount of bonds, the Commonwealth will incur the additional cost for the interest on the bonds that are sold. Exact costs cannot be determined since costs will be dependent upon the timing of bond sales, interest rate(s) at the time of the sale, and amortization methodology used. Estimated debt service assuming the sale of \$1,225,000,000 of bonds, at an interest rate of 4.0%, is shown below:

	Level Debt Service <u>Methodology</u>	Equal Annual Maturities <u>(Level Principal)</u>
Year 1 Debt Service	\$90,138,000	\$110,250,000
Total Debt Service over 20 years	\$1,802,753,000	\$1,739,500,000

The enactment of the other components of this legislation will have no immediate impact on Commonwealth funds. To the extent RACP debt issuance decreases in the future due to the \$250,000,000 mandated reduction in the RACP maximum debt outstanding cap, debt service payment obligations of the Commonwealth will also decrease. While exact savings cannot be determined since debt service costs will be dependent upon the amount, timing and interest rates of future bond sales, an estimate of debt service payments that can be avoided based on each \$50,000,000 of bonds not sold, assuming equal annual maturities amortization and an interest rate of 4.0%, will be \$71,000,000 over 20 years (versus \$73,582,000 over 20 years using level annual debt service). Debt service payment obligations of the Commonwealth will also decrease to the extent the limitations on annual capital project releases reduce annual debt issuance.

PREPARED BY: Lisa Taglang
House Appropriations Committee (R)

DATE: October 3, 2017

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.