HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 623 **PRINTER'S NO. 1132** **PRIME SPONSOR: Harris**

COST / (SAVINGS)

FUND	FY 2022/23	FY 2023/24
General Fund	$0	See Fiscal Impact
Capital Facilities Fund	$0	See Fiscal Impact

SUMMARY:

House Bill 623, Printer's Number 1132 provides for the capital budget for the 2023/24 fiscal year, authorizing the amount of new debt which may be issued to pay for capital projects.

ANALYSIS:

The bill authorizes up to a total of $1.335 billion in additional principal debt to be issued by the commonwealth to pay for capital projects specifically itemized in a capital budget project itemization bill. Debt is specifically authorized by capital project category, as follows:

Category	Authorization
Public Improvement Projects – Buildings and Structures	$600,000,000
Public Improvement Projects – Furniture and Equipment	$10,000,000
Transportation Assistance Projects	$350,000,000
Redevelopment Assistance Projects	$375,000,000
Flood Control Projects	$0
TOTAL	**$1,335,000,000**

Debt can be incurred in the 2023/24 fiscal year, or thereafter until the enactment of the 2024/25 capital budget, up to the maximum amounts laid out in the bill.

The bill takes effect July 1, 2023, or immediately, whichever is later.

FISCAL IMPACT:

In addition to the principal repayments, the commonwealth will incur interest costs on the bonds sold. The timing of principal and interest payments depends on when a bond sale is executed by the governor, in concert with the Treasurer and Auditor General. Similarly, the interest rate that the commonwealth achieves depends both on its fiscal condition and creditworthiness as well as prevailing market conditions at the time of the sale. Interest rates can vary significantly over time.

Act 43 of 2019 requires general obligation debt issued for the capital budget after July 1, 2021 to use the equal annual maturities amortization schedule, also known as level principal. Under this methodology, equal amounts of principal are retired each year over the life of the bond issuance. This causes initial debt service to be highest in year 1, declining each year thereafter until the last year.

Assuming all the authorized bonds are issued simultaneously, a 20 year term and use of the level principal amortization method, the following would be the peak debt service amount (occurring in the first year) and total repayments of the life of the bonds, under different interest rate scenarios:

Interest Rate	Peak Debt Service (Year 1)	Total Repayment
4.0%	$120,150,000	$1,895,700,000
4.5%	$126,825,000	$1,965,787,500
5.0%	$133,500,000	$2,035,875,000
5.5%	$140,175,000	$2,105,962,500
6.0%	$146,850,000	$2,176,050,000
6.5%	$153,525,000	$2,246,137,500

Bond proceeds from general obligation bonds sold for the capital budget are deposited into the Capital Facilities Fund. The net proceeds from a bond issuance depends on the amount of principal sold, but also on the premium or discount received from the sale.

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House Appropriations Committee (D)

DATE: June 13, 2023

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