

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 83

PRINTER NO. 2769

AMOUNT

See Fiscal Impact

FUND

General Fund

DATE INTRODUCED

March 7, 2017

PRIME SPONSOR

Representative Lawrence

DESCRIPTION AND PURPOSE OF BILL

House Bill 83 amends Section 307(c) of the Act of February 9, 1999, P.L. 1, No. 1, known as the Capital Facilities Debt Enabling Act (CFDEA), to change the amortization methodology for future capital budget debt.

This legislation requires that all debt amortization shall be computed using an equal annual maturities plan, except in cases of a refunding bond issuance. In those instances, either an equal annual maturities or level debt service plan may be utilized. An equal annual maturities plan requires level principal payments for the life of the bond issuance.

This act shall apply to bonds issued on or after July 1, 2018.

This act shall take effect immediately.

FISCAL IMPACT:

Enactment of this legislation will result in a savings of \$51.6 million to the Commonwealth in interest payments for debt service on a \$1 billion, 20-year bond issuance at an interest rate of 4%.

Future savings by utilizing an equal annual maturities plan is accomplished by the fact that the annual amount of principal payments remains relatively constant over the life of the issuance of bonds, resulting in declining annual debt service as the annual amount of interest declines. Conversely, a level annual debt service plan keeps the debt service costs consistent each year, thereby providing lower initial debt service costs, but leads to higher total interest payments over the life of the bonds.

Because debt service costs under the equal annual maturities plan are initially higher than under a level debt service plan, the Commonwealth's debt service costs for a \$1 billion bond issuance will be approximately \$16 million higher in the first issuance year.