January 21, 2013

Bonding Proposals Show Promise

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Recent improvements in general revenue, the completion of a previous bond series, and the need for capital maintenance and improvements have spurred interest in new bonding initiatives among state lawmakers.

With extraordinarily low interest rates, significant infrastructure improvement needs, and modest additional debt service costs, it may be time for Missouri to consider a new bond effort. **However, to protect ongoing operations including education, public safety and social services, lawmakers should also approve a new continuing source of revenue in order to repay the bonds, such as the Marketplace Fairness Act and reforms of Missouri's tax credits.**

Bonding as an Investment in Missouri's Economy and Infrastructure Needs

Legislative proposals would ask voters to approve bonding authority for capital improvements including construction and maintenance of Missouri's public colleges and universities, maintenance of facilities at state parks, and road/highway maintenance and construction costs.

Although Missouri voters have not been asked to approve a broad-based bonding measure in almost twenty years,[1] bonding can be the most appropriate financing stream for many construction and maintenance needs. It permits the state to meet extraordinary costs outside of the normal budgeting process, allowing Missouri to continue to finance its ongoing budgetary needs with its ongoing budget funds.

Further, investing in Missouri's capital infrastructure supports the state's current and future economy. Increased construction financing can provide a boost to the economy, not only through increased construction and repair jobs directly, but by enhancing the infrastructure that Missouri's economy relies upon. **A 2010 analysis by Mark Zandi, co-founder of Moody's Economy, a national leader in economic analysis, found that each dollar spent on infrastructure and construction could result in an <u>additional</u> $1.57 in economic return.**[2]

To maximize its global competitiveness, Missouri needs a strong educational system and infrastructure. Unfortunately, with the economic recession and declines in state revenue, the state has delayed many capital improvement and maintenance needs. As a result:

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[1] The Fourth State Building Bonds were approved in 1994. The Missouri Senate Appropriations Committee, "2012 Annual Fiscal Report: Fiscal Year 2013"

[2] Alan S. Blinder of Princeton University and Mark Zandi of Moody's Analytics "How the Great Recession Was Brought to an End," July 27, 2010.

- The University of Missouri System has a current backlog of $1.3 billion in renovation and repair needs on its four campuses,[3] an amount estimated to grow to $2.6 billion by 2022 if not addressed.[4]
- Missouri State University's maintenance and repair needs have also grown faster than the currently available resources. In 2010, the estimated cost for incomplete maintenance needs reached $91 million.[5]
- While an estimated 9.3 percent of Missouri roads are in poor condition (compared with the national average of 5.8 percent) and approximately 17 percent of Missouri bridges are considered structurally deficient,[6] the Missouri Department of Transportation (MODOT) faces a $1.4 billion decline in total funding between fiscal years 2010 and 2016.[7]
- Missouri state parks are facing a $200 million backlog in vitally needed infrastructure rehabilitation.[8]

Historically Low Borrowing Costs Resulting from Responsible Use of Past Bonding Make for Good Timing and Modest Debt Service Costs

Responsible financial management and a moderate debt burden are two factors that have allowed Missouri to hold onto its AAA credit rating from Standards and Poor's, a leading credit rating agency.[9] Missouri has held this top rating for more than 46 years.[10] The financial assessments of states that are conducted by credit agencies include a review of Missouri's current debt load, which is considered moderate when compared to other states. Missouri's debt load of $775 per capita is well below the national median of $1,066.[11] Further, Missouri has consistently used bonding for major projects – projects that are large in scope and cost and which the state could not otherwise afford. It has not accessed bonds for ongoing operational expenses.

The strong rating allows Missouri to receive the lowest borrowing rates for bonds to undertake major projects. Missouri could qualify for interest rates as low as 2.5 percent by some estimates, well below the 8-9 percent rate available in 1982 when Missouri approved the "Third State Building Bonds."[12]

Missouri made its final payment on those 1982 bonds in the last year, reducing its general revenue funded debt payments overall. However, the state does continue to face ongoing debt repayment in several categories, as outlined in the appendix. The repayment schedule for outstanding general revenue debt as well as the MODOT debt outlined in the appendix is detailed in the table below. **If Missouri were to approve the $950 million in additional debt as**

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[3] University of Missouri System, "Legislative Priorities for 2013"
[4] University of Missouri System, "Annual Report for Facilities Repair, Replacement and Renovation Expense and 10 Year Facilities Needs Forecast," November 2012
[5] Missouri State, "2011-2016 Long Range Plan, Fulfilling Our Promise"
[6] Transportation for America "The Fix We're In For: The State of Our Nation's Bridges"
[7] Missouri Budget Project, "Stabilizing Missouri's Highway Funding," August 3, 2012
[8] Missouri Votes Conservation
[9] Standard and Poor's, Global Credit Portal, Ratings Direct "Missouri Board of Public Buildings Missouri; Appropriations; General Obligation," August 2011
[10] Standard & Poor's, "History of US State Bond Ratings," 2012
[11] Moody's Investor Services, "Special Comment: 2011 State Debt Medians Report," June 3, 2011
[12] Missouri Board of Fund Commissioners

proposed in Senate Joint Resolution 3, the debt service cost would increase Missouri's general revenue payments by slightly less than $60 million annually over a 25 year span.

Missouri Current Debt Obligations Fiscal Years 2013 - 2023[13]			
Fiscal Year	**General Revenue Debt Payments**	**MODOT Debt Payments**	**Combined Debt Payments**
2013	$150.8	$289.0	$439.8
2014	$159.8	$291.6	$451.4
2015	$160.4	$292.5	$452.9
2016	$151.9	$284.4	$436.3
2017	$147.5	$303.5	$451.0
2018	$121.0	$304.7	$425.7
2019	$117.6	$304.5	$422.1
2020	$101.4	$303.4	$404.8
2021	$92.8	$282.1	$374.9
2022	$86.6	$265.6	$352.2
2023	$63.4	$251.0	$314.4

The new debt payments would increase the total annual general revenue cost to just under $220 million in fiscal year 2014, or an estimated 2.8 percent of Missouri's general revenue operating budget.

While this amount seems modest, Missouri's general revenue budget has not yet fully recovered from the recession, and the state faces ongoing budget challenges as a result. In fact, recent analysis indicates that **it will take 15 more years for the state to return to the level of <u>purchasing power</u> it had before the recession.**[14]

<u>Because of the tenuous general revenue environment, new bonding should be considered only if lawmakers approve additional revenue collections simultaneously</u>, such as approving the Marketplace Fairness Act and/or reforms of Missouri's tax credits. The dual action would allow Missouri to invest in long-terms needs such as capital construction while protecting its ongoing general revenue investments such as education.

[13] Calculated by Missouri Budget Project from information in the "Annual State Debt Report for FY 2012," published by the Office of Administration-Division of Accounting. See: http://oa.mo.gov/acct/debt/StateDebtReport070112.pdf

[14] Missouri Budget Project, "State Revenue is Growing, But Still Far Below Pre-Recession Levels," January 21, 2013

Appendix

General Obligation Bonds: Outstanding principal as of July 1, 2012 was $432.8 million for general obligation bonds, which currently consist of the "Fourth State Building Fund" as well as funding for Water Pollution and Storm Water Control projects. As noted earlier, debt service for the Third State Building was completed during FY 2013.

Revenue Bonds: These are bonds issued by the Board of Public Buildings and used to maintain state facilities. The outstanding principal as of July 1, 2012 was $567.5 million in this category.

Other Appropriation Debt/Payments: This category consists of a variety of debt obligations the state has incurred for specific projects including the Edward Jones Dome in St. Louis, the Mizzou Arena in Columbia, and various projects funded by the Missouri Development Finance Board (MDFB).[15] Nearly all of the debt in this category is paid for with general revenue. Outstanding principal as of July 1, 2012 was $268.2 million in this category.

In addition, the Missouri Department of Transportation maintains the largest component of Missouri debt obligations and uses non-general revenue funding for repayment. The outstanding principal as of July 1, 2012 was $3.071 billion in this category. However, because this debt is paid separately from general revenue, it is not included in this analysis, which compares Missouri's general revenue ability to repay new bonding.

[15]Lease purchase bonds were issued by MDFB in 2005 and 2006 for four buildings in the St. Louis area. The buildings are used by multiple state agencies, including agencies substantially funded by GR. Publicly available budget information provided by the Office of Administration does not provide sufficient detail to determine how the debt service costs are allocated between GR, Federal, and Other Funds. Given the small amount of annual debt service involved for the MDFB financed buildings ($2.6 million) compared to the state's total annual debt service, the exact cost allocation by fund would have minimal impact on this report.