

Debt Affordability and Bonding Considerations

NEW HAMPSHIRE STATE TREASURY

APRIL 30, 2021

Debt Affordability Tools

- The Debt Limit Calculation prescribed in RSA 6-C:2 prohibits the Legislature from authorizing any additional net tax-supported debt (or debt paid with general funds) that would result in actual and projected debt service exceeding 10% of unrestricted general fund (GF) revenues for the previous fiscal year (or \$162.2 million in 2020, 10% of FY2019 GF revenue). The results from this calculation generally reflect a higher cap than the recommendations provided in the Debt Affordability Study; however, this statutory limit serves as a guardrail to prevent excessive borrowing.
- The Debt Affordability Study is prepared by the State Treasury and the State's financial advisor, Public Resources Advisory Group. This study calculates debt metrics (total debt to personal income, total net debt per capita, net debt service to general fund revenues) that project whether the State's debt levels will remain manageable over the course of several years. We pay particular attention to the debt to revenue ratio as the credit rating agencies measure excessive debt service burden using this metric.

Debt Affordability Tools (cont.)

RSA 6-C:2 Debt Limit

<u>Fiscal Year</u>	<u>Current Actual General Fund Debt Service</u>	<u>Amortization of 254M in General Fund Bonds Authorized & Unissued</u>	<u>\$166M Guaranteed General Fund Debt</u>	<u>Total Projected General Fund Debt Service</u>	<u>10% of FY 2019 General Fund Unrestricted Revenues</u>	<u>Less: Total Projected General Fund Debt Service</u>	<u>Remaining Debt Service Authorizations Allowable</u>
2020	90,896,878	6,350,000	6,962,816	104,209,694	162,200,200	104,209,694	57,990,506
2021	85,373,717	20,189,950	8,465,299	114,028,966	162,200,200	114,028,966	48,171,234 (a)
2022	76,642,622	20,180,250	10,341,354	107,164,227	162,200,200	107,164,227	55,035,973
2023	66,474,099	20,169,875	12,218,500	98,862,474	162,200,200	98,862,474	63,337,726
2024	61,183,247	20,158,850	13,117,435	94,459,532	162,200,200	94,459,532	67,740,668
2025	55,922,580	20,148,125	14,016,371	90,087,076	162,200,200	90,087,076	72,113,124
2026	47,595,512	20,136,600	13,898,734	81,630,846	162,200,200	81,630,846	80,569,354
(a) Correlates to \$600M in authorizations							

Using the debt affordability study methodology, authorizing up to \$600 million would cause the debt to revenue ratio to increase to approximately 8.5%-9.5% for the first few years.

Debt Affordability Tools (cont.)

FY 2020 Debt Affordability Study

Net General Fund Bonding Authorization of \$120 million

	Fiscal Year (in thousands)					Moody's Median
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2020⁽¹⁾</u>
Net General Fund Debt ⁽²⁾	\$568,434	\$532,338	\$562,511	\$544,367	\$526,281	
Total Net Debt to Personal Income	0.6%	0.6%	0.6%	0.6%	0.5%	2.0%
Total Net Debt Per Capita	\$417	\$390	\$411	\$397	\$383	\$1,071
Net Debt Service to General Fund Revenues ⁽³⁾	6.7%	6.2%	6.7%	6.5%	6.3%	3.8% ⁽⁴⁾

(1) From Moody's *2020 State Debt Medians Report*, which is based on calendar year and FY 2019 data.

(2) Includes school building aid debt.

(3) Using FY 2020 GF revenues and conservative revenue assumptions thereafter

(4) "Rule of thumb" of 10% is used by credit analysts to warn of excessive debt service burden.

Bonding Considerations

- The rating agencies consistently praise the State’s debt levels and debt management practices as conservative, one of the credit positives that responds predictably to budgetary policy.
- From 2000-2011, NH’s ratio averaged 6.1%, however, the average reached 7.3% from 2012-2020. The debt to revenue ratio of 10% is the “warning” level monitored by rating agencies.

2012	2013	2014	2015	2016	2017	2018	2019	2020
7.8%	7.7%	8.4%	8.2%	7.3%	6.8%	6.4%	6.4%	6.7%

- Maintaining borrowing capacity for unanticipated capital needs is prudent (ex. Concord steam, PFAS remediation project, deteriorating infrastructure, policy initiatives that require significant funding).
- Presently, the amount of “authorized and unissued” General Obligation debt is \$174 million, which represents bonding authorizations for capital projects that have not yet begun spending.

Bonding Considerations (cont.)

Debt Statement as of June 30, 2020 (In Thousands)

General Obligation Bonds:

General Improvement	\$557,611	
Highway	91,813	
University System of New Hampshire	91,745	
Total Direct General Obligation Debt		\$741,169

Revenue Bonds:

Turnpike System ⁽¹⁾	295,930	
GARVEE ⁽²⁾	90,800	
Total Revenue Bond Debt		\$386,730

Contingent (Guaranteed) Debt:

Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	0	
Business Finance Authority	52,300	
Local School District School Bonds	15,289	
Total Contingent Debt		\$67,589

Total Debt		\$1,195,488
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Less: Self-Supporting and Contingent Debt:

General Fund Self-Supporting Debt ⁽³⁾	29,783	
Turnpike System Revenue Bonds	295,930	
Highway Fund	91,813	
GARVEE	90,800	
Water Pollution and Waste Disposal Bonds issued by Political Subdivisions	0	
Business Finance Authority	52,300	
Local School District School Bonds	15,289	
Liquor Commission	38,590	
State Revolving Fund	11,227	
School Building Aid	52,480	
Fish & Game	1,322	
Total Self-Supporting and Contingent Debt		\$679,534

Total Net General Fund Debt ⁽⁴⁾		\$515,954
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(Columns may not add to totals due to rounding.)

⁽¹⁾ Turnpike System revenue bonds are limited obligations of the State payable solely out of net revenues of the Turnpike System. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Turnpike System revenue bonds.

⁽²⁾ Federal Highway Grant Anticipation (GARVEE) Bonds. These bonds are special limited obligations of the State payable from federal grant funding.

⁽³⁾ Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues statutorily earmarked to fund debt service payments on specific projects). School building aid debt service is funded from a portion of the meals and rooms tax revenue.

⁽⁴⁾ Net General Fund debt is debt for which debt service payments are made directly by the State from its taxes and other unrestricted General Fund revenue.