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SUBJECT: 2020 Debt Affordability Bulletin

In the spring of each year, the State Treasury produces a very comprehensive and detailed Debt Affordability Study comprising approximately 20 pages of narrative and analysis. Treasury distributes the Study to Legislators, the Governor's office, and the Executive Council, while also posting it to the Treasury website for public access (scroll down a bit to find the links). Treasury expects to release the customary Debt Affordability Study later in the fiscal year.

Due to the expectation of significant disruptions to the State's revenue performance stemming from the coronavirus pandemic, a different approach to debt affordability is appropriate this year. Treasury has prepared a one-page analysis that depicts the level and percentage of unrestricted General Fund revenue underperformance for fiscal years 2020 through 2026 that would drive the ratio of debt service-to-revenue to certain thresholds. As noted at the top of the page, RSA 6-C:2 prescribes the statutory debt affordability metric using this ratio, setting the maximum limit at 10%. The statutory limit is also the "warning level" monitored by the credit rating agencies.

The attached schedule identifies the revenue performance levels and percentage declines that would produce annual ratios at thresholds of 6.5% to 10%, in increments of 0.5%. Please note that the final ratio for fiscal year 2019 was 6.4%. The ratio thresholds are color-coded so that the reader can easily follow along on a yearly basis. Within each ratio threshold are the following three data elements for each fiscal year:

- Unrestricted General Fund revenue
- Change in unrestricted General Fund revenue from the prior year
- Adjusted ratio if the State were required to fund the debt service on all State-guaranteed debt, including existing and authorized-but-unissued debt of the Business Finance Authority and Pease Development Authority

The analysis assumes that future, biennial, capital project bonding authorizations, whose debt service is repaid on a net tax-supported revenue basis (enacted in HB 25 each biennium), will be maintained at the same $120 million level assumed by the State Treasury in the past several debt affordability studies. The calculations account for existing debt service obligations on bonds already issued, while bonds that are authorized-but-unissued are effectively accounted for in the annual volume of bond issuance going forward.

Fiscal year 2020 is the key column, as the further one moves along to the later years on the right, the less certain the results, since they are derived from hypothetical revenue in prior years. Focusing on an informative example from fiscal year 2020, the amount of revenue that would push the ratio to 7.5% would be $1.353 billion, a decline of 16.6% from fiscal year 2019 revenue. As I've noted in several legislative committee presentations, the State's ratio averaged 6.1% from 2000 to 2010, the immediate aftermath of the Great Recession. From 2012 to 2019, the ratio averaged 7.4%, although it has trended down significantly over the past three fiscal years due to historically strong revenue performance.

Commissioner of the Treasury Monica Mezzapelle and Chief Deputy Treasurer Rachel Miller are prepared to respond to inquiries related to this analysis and are able to run different sensitivities related to future HB 25 bonding authorizations.

	A	B	C	D	E	F	G	H	I	J
1	**Unrestricted GF Revenue Performance Sensitivities & Impact on Ratio of Debt Service to Revenue**									
2	**Fiscal Years 2020 - 2026**									
3										
4	**RSA 6-C:2 Affordable Debt Limit. –**									
5	I. The general court shall not authorize any additional net tax supported debt of the state if the projected annual debt service, as certified by the treasurer and filed with the legislative budget assistant, on such additional net tax supported debt, when added to the prior projected and actual annual debt service on any previously authorized net tax supported debt, both issued and unissued, exceeds 10 percent of the unrestricted general fund revenues for the previous fiscal year.									
6	II. The general court may only exceed the ceiling in paragraph I by a 3/5 vote of each house present and voting. Such 3/5 vote shall only apply to votes on final passage and adoption of committee of conference reports.									
7										
8	Note: future debt service obligations used in producing the results below are based on net tax supported biennial capital project bonding authorizations maintained at $120 million.									
9										
10	Ratio		Actual	P R O J E C T E D						
11	Threshold		2019	2020	2021	2022	2023	2024	2025	2026
12	**6.5%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,564,000	1,456,084	1,418,226	1,344,478	1,355,234	1,363,365	1,321,101
13		**Change in revenue from prior year**		**-3.6%**	**-6.9%**	**-2.6%**	**-5.2%**	**0.8%**	**0.6%**	**-3.1%**
14		Debt ratio including State guaranteed debt	6.8%	7.0%	7.1%	7.3%	7.6%	7.6%	7.7%	7.8%
15	**7.0%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,451,000	1,350,881	1,317,109	1,247,302	1,257,281	1,264,824	1,225,615
16		**Change in revenue from prior year**		**-10.5%**	**-6.9%**	**-2.5%**	**-5.3%**	**0.8%**	**0.6%**	**-3.1%**
17		Debt ratio including State guaranteed debt	6.8%	7.5%	7.7%	7.9%	8.1%	8.2%	8.3%	8.4%
18	**7.5%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,353,000	1,260,996	1,228,210	1,164,343	1,173,658	1,179,526	1,142,961
19		**Change in revenue from prior year**		**-16.6%**	**-6.8%**	**-2.6%**	**-5.2%**	**0.8%**	**0.5%**	**-3.1%**
20		Debt ratio including State guaranteed debt	6.8%	8.0%	8.2%	8.5%	8.7%	8.8%	8.9%	9.0%
21	**8.0%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,269,000	1,181,693	1,150,969	1,091,118	1,099,847	1,105,347	1,071,081
22		**Change in revenue from prior year**		**-21.8%**	**-6.9%**	**-2.6%**	**-5.2%**	**0.8%**	**0.5%**	**-3.1%**
23		Debt ratio including State guaranteed debt	6.8%	8.6%	8.8%	9.0%	9.3%	9.4%	9.5%	9.6%
24	**8.5%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,193,000	1,110,922	1,083,149	1,026,825	1,034,013	1,040,217	1,007,970
25		**Change in revenue from prior year**		**-26.4%**	**-6.9%**	**-2.5%**	**-5.2%**	**0.7%**	**0.6%**	**-3.1%**
26		Debt ratio including State guaranteed debt	6.8%	9.1%	9.3%	9.6%	9.9%	**10.0%**	**10.1%**	**10.2%**
27	**9.0%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,126,000	1,049,432	1,022,147	968,995	976,747	982,608	952,147
28		**Change in revenue from prior year**		**-30.6%**	**-6.8%**	**-2.6%**	**-5.2%**	**0.8%**	**0.6%**	**-3.1%**
29		Debt ratio including State guaranteed debt	6.8%	9.6%	9.9%	**10.1%**	**10.5%**	**10.6%**	**10.7%**	**10.8%**
30	**9.5%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,066,000	993,512	967,681	917,361	924,700	930,248	901,411
31		**Change in revenue from prior year**		**-34.3%**	**-6.8%**	**-2.6%**	**-5.2%**	**0.8%**	**0.6%**	**-3.1%**
32		Debt ratio including State guaranteed debt	6.8%	**10.2%**	**10.4%**	**10.7%**	**11.0%**	**11.2%**	**11.3%**	**11.4%**
33	**10.0%**	Unrestricted GF revenue ($Thousands)*	1,622,000	1,012,000	943,184	919,604	871,785	877,887	883,155	855,777
34		**Change in revenue from prior year**		**-37.6%**	**-6.8%**	**-2.5%**	**-5.2%**	**0.7%**	**0.6%**	**-3.1%**
35		Debt ratio including State guaranteed debt	6.8%	**10.7%**	**11.0%**	**11.3%**	**11.6%**	**11.8%**	**11.9%**	**12.0%**
36										
37	* Level of unrestricted GF revenue performance that would produce the debt service to revenues ratio indicated on the left, using existing and projected debt service.									