



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

July 5, 2011

TO: Representative Donna Seidel
Room 119 North, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: Debt Restructuring in 2011

As you requested, this memorandum provides background information on debt restructuring transactions and on the amount of state general obligation debt that has been restructured since January 1, 2011, as well as the amount of general obligation debt that will be restructured under the 2011-13 biennial budget.

Debt Restructuring

Generally, debt is refinanced through either an economic refunding or a structural refunding, or a combination of those methods. In an economic refunding, the new stream of debt service payments is designed to reduce the total cost of the outstanding debt and is typically undertaken to take advantage of reduced interest rates. No increase in debt service payments occurs in any year due to an economic refunding and debt service payments are reduced in some or all years during the life of the refunding issue. The transaction can be structured so that the debt service savings are realized equally in each year during the life of the refunding bonds or concentrated in the early or late years of the transaction.

Under a structural refunding, the new stream of debt service payments can be higher or lower in a given year than under the current stream of payments. For example, the debt service payments in the early years of the refunding could be reduced while debt service payments are increased in future years compared to the existing repayment schedule. A structural refunding extends the average life of previously issued debt. Principal on the bonds is outstanding longer and therefore, the interest costs to the issuer are greater. These restructuring transactions involve delaying a principal payment that is currently due. No remaining repayment schedule would exist for that principal had it been repaid and not restructured into the future.

The proceeds from general obligation bonds or short-term commercial paper issued by the state are used to construct or improve long-term assets such as roads, harbors, railways, or state buildings, to purchase land or other assets under programs like the state's stewardship program, or to protect the state's water or other natural resources under a program like the nonpoint source pollution abatement program. Conversely, in issuing bonds to restructure its existing debt, the state incurs an additional long-term debt obligation but would not acquire an offsetting asset associated with that debt. Rather, the state is issuing additional long-term debt only for the purposes of making a principal payment on its existing debt.

Restructuring debt is a common financial tool used by institutions when their budgets are stressed due to stagnating or declining revenues or increasing costs. Governments can experience budget stress when the growth in existing revenues declines due to an economic downturn or as a result of legislation that reduces the amount of annual revenue generated from its revenue sources. Also, the over-commitment of existing revenues for spending programs can lead to budget stress.

Private sector corporations and households often use debt restructuring as a means to reduce current costs when facing financial stress. For example, a household with eight years remaining on an existing 15-year home mortgage, that is facing a financial hardship due to a reduction in income or an increase in personal costs, may choose to restructure the remaining seven years on its existing mortgage debt. In restructuring its mortgage debt, the household could refinance the remaining eight years of principal associated with its current mortgage by replacing it with another 15-year mortgage. In doing so, the household would spread out its remaining principal over 15 years, which would lower the household's monthly mortgage payment and allow it to more easily make current ends meet. However, similar to a debt restructuring transaction, this action would also extend the household's final maturity date on its mortgage by seven years and increase the overall interest costs paid in financing the home.

Recent Debt Restructuring Actions

In May, 2011, the state restructured approximately \$190.0 million, net of bond premiums, in GPR debt principal that would have otherwise been repaid in May, 2011. This transaction used the \$165.0 million in bond refinancing authority authorized under 2011 Act 13, along with \$50 million in existing refinancing authority. In addition, as approved under the 2011-13 biennial budget (2011 Act 32), the state will restructure an additional \$338.3 million in outstanding GPR supported general obligation bond and variable rate commercial paper principal that otherwise is scheduled to be repaid in May, 2012. As a result, \$528.3 million in outstanding principal due on the state's GPR supported debt will be restructured under the two transactions.

You also requested the expected repayment schedule associated with the GPR principal being restructured under the two transactions. While the structure of the repayment schedule of the Act 32 debt restructuring transaction has not yet been finalized, Department of Administration Capital Finance officials have provided a possible repayment schedule for that restructuring transaction. Under both of these debt restructuring transactions the principal on the state's existing

GPR supported general obligation and commercial paper debt remains outstanding for a longer period of time and thus \$149.2 million in additional interest costs will be incurred by the state. The following table combines the repayment schedules associated with these two debt restructuring transactions, if the debt is held to the expected maturity.

**Potential Repayment Schedule Under 2011
Acts 13 and 32 Debt Restructuring Transactions**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$0	\$8,684,000	\$8,684,000
2012-13	17,235,000	25,459,468	42,694,468
2013-14	59,423,333	22,789,757	82,213,090
2014-15	62,076,095	20,136,994	82,213,090
2015-16	64,845,139	17,362,700	82,207,840
2016-17	67,748,883	14,461,456	82,210,340
2017-18	70,780,902	11,426,937	82,207,840
2018-19	43,097,669	8,253,154	51,350,823
2019-20	40,932,849	6,287,424	47,220,272
2020-21	40,944,875	4,396,193	45,341,068
2021-22	14,347,115	2,491,760	16,838,875
2022-23	10,507,292	1,905,288	12,412,579
2023-24	9,347,209	1,471,779	10,818,988
2024-25	5,840,964	1,084,014	6,924,977
2025-26	4,025,113	850,375	4,875,488
2026-27	4,186,118	689,371	4,875,488
2027-28	4,124,493	521,926	4,646,419
2028-29	3,848,084	356,946	4,205,030
2029-30	1,415,234	203,023	1,618,257
2030-31	1,252,042	146,413	1,398,455
3031-32	771,494	96,332	867,826
2032-33	802,353	65,472	867,826
2033-34	834,448	33,378	867,826
Total	\$528,386,704	\$149,174,160	\$677,560,863

In addition, consistent with projections made during the 2009-11 biennial budget, the state restructured the principal amounts due in May, 2011, on approximately \$107.0 million of its outstanding commercial principal. These restructured amounts are not included in the above table.

I hope this information is helpful. Please contact me if you have any further questions.

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