To Bond or Not to Bond…
That is the Question

I am neither blindly opposed nor blindly supportive of state bonding; I do have questions I raise for meaningful discussion and analysis in the spirit of due diligence to ensure fiscal accountability and oversight. These include: What is the real net interest rate comparison between the Build America Bonds (BABs) program and Missouri's Tax Exempt Bonds (TEBs)? Can we afford bonding? And, what are the projects to be bonded?

According to Senate Appropriations, as the bond market stands today, Missouri could issue TEBs, by a vote of the people, at an interest rate of 4%. Through the Federal Government we would be able to issue BAB taxable bonds at an interest rate of 5.6%, but the Federal Government will pay 35% of the total interest on the BAB bonds. In terms of real dollars being spent, if we were to issue $100 million in TEBs over 25 years we will have to pay approximately $60 million in interest. Taxpayers would pay approximately $83 million in interest on the BAB, but since the Federal Government will pay 35%, or $29 million, of the interest there would be a net interest cost of approximately $54 million. So using today's interest rates we would save around $6 million over a 25-year period, which is $240,000 per year, going with BABs. But it is important to note that whether TEBs or BABs are utilized, taxpayers on the State and/or Federal level are the ones responsible for paying the interest. The money comes from taxpayers.

Additionally, BABs have a deadline of January 1, 2011, by which Missouri must have completed the issuance of the total amount intended to borrow. Recent talk of a bonding proposal to complete all the state's capital improvement needs has been conservatively approximated at around $800 million and I have heard estimates that are upward of $1 billion. Once either of the bonds are issued, we must immediately start making payments towards the principle and of course the interest. (TEBs have no deadline, but interest rates change according to the economic climate). This means that instead of borrowing the entire amount in a single lump sum as with BABs, we could issue out TEBs for specific projects, as necessary, realizing "cash flow" savings.

Another issue surrounding a bonding proposal is whether we can afford to incur more debt. It is my understanding that in December 2007, the general assembly initially estimated a 3.4% growth of general revenue (GR) for FY09. This was revised in December 2008 to a decline of 4.0%. As of today, GR has declined to 6.7% and could fall even lower. In dollar terms, the difference between 3.4% growth and a 7.0% decline is approximately $785 million. The FY09 budget was crafted with a growth assumption of 3.4%, but we left $390 million unspent. The combination of this unspent balance, the governor's withholdings/vetoes, and the governor transferring $250 million from the enhanced Medicaid payments to GR is how the FY09 budget was balanced. The FY10 budget is based on an initial consensus estimate of 1.0% growth, but this was based on FY09 revenues that only declined 4.0%, not 7.0%. Even if we hit the 1.0% growth rate in FY10, the governor would still need to withhold funds to balance the budget, which he has done.

We have spent approximately $711 million of Federal Stabilization funds on on-going programs in the FY10 budget. This left us $966 million in Federal Stabilization funds to be used in the FY11 budget, but after the FY10 budget was Truly Agreed and Finally Passed, Governor Nixon used a "wildcard transfer" to move $250 million into FY09 GR. This leaves us enough to replace what we spent in FY10, but nothing to help our anticipated GR deficit in future state fiscal years. The Governor would need to withhold even more items than he already has, an additional $250 million, to get us back up to the Federal funds level of $966 million for FY11's budget. The severe economic downturn has left real problems in Missouri's fiscal situation, maybe not to the extent of other states like California or Illinois, but this fiscal crisis exists even without incurring more debt from a capital improvement bonding proposal. With this in mind, a careful cost benefit analysis of any bonding is necessary. We must not issue debt we can not afford to pay off and we should not issue bonds just for the sake of issuing bonds.

An issue being discussed in favor of bonding is that the debt service on the Third State Building Fund will expire in two years. Proponents state that the same revenue stream will pay for most of this new "Fifth State Building fund" with only minor additional strain on the budget. However, according to Senate Appropriations, the payments on the Third State bonds go from $33 million in FY11 to $5 million in FY12 & FY13 and $0 in FY14 and beyond. This is a savings of $28 million in FY12 & FY13, but our overall debt service on general obligation bonds only drops $14 million in FY12 and $23 million in FY13 because the payments on some of our other general obligation bonds increases. The amount of funds freed up to pay off any new bonds is not as much as it would appear to be by just looking at what happens with the Third State bonds. In addition, it appears that Missouri will still be in a difficult financial position in FY12 & FY13, so any freed up GR could be used to help reduce the amount of core cuts to state programs in those years.

Finally, I have yet to come across a list of all the "needed" buildings or what the bond proceeds will be used for. I also haven't seen any projections as to how many jobs might be created or how much the economy will benefit from this investment. I do know however, that the Joint Committee on Capital Improvements and Leases Oversight pursuant to the charge of Speaker Richard and President Pro-Tem Shields has been meeting and will continue to meet regarding this issue. In my opinion, a comprehensive list should be developed before any bonding is approved by the General Assembly and thus sent to the people of Missouri for their approval at the next general election.

Again, I reiterate that I am neither blindly supportive nor blindly opposed to bonding. I seek only thoughtful discussion on the issues I raise herein. I stand willing to continue examining bonding with an open mind and I ask for your thoughts on this important matter.

Jason Crowell