LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 222

STATE OF NEW JERSEY
217th LEGISLATURE

DATED: JULY 13, 2017

SUMMARY

Synopsis: "New Jersey Library Construction Bond Act"; authorizes issuance of $125,000,000 in general obligation bonds to finance capital projects at public libraries; appropriates $5,000.

Type of Impact: Increased multi-year State debt service payments.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	Fiscal year 2019 through Fiscal Year 2053
Annual State Debt Service Payments	Between $6,700,000 and $8,600,000

- The Office of Legislative Services (OLS) cannot conclusively project the total debt service cost the State will incur from issuing $125 million in general obligation bonds to provide grants for capital projects at public libraries. This is so because the final debt service cost will hinge upon the specific structure and terms of the authorized bond issuance. Both will be a function of bond market conditions and the Executive Branch's financial management preferences prevailing at the time of the bonds' initial offering.

- Nonetheless, after making certain plausible assumptions, the OLS estimates that under Assembly Bill No. 222 (1R) of 2016 the State might incur total debt service costs ranging from $233 million to $300 million spread over 35 years, which includes total interest payments ranging from $108 million (87 percent of the $125 million borrowed) to $175 million (140% of the $125 million borrowed). The lower bound represents a 4.0 percent annual interest rate and the upper bound a 6.0 percent annual interest rate. If the assumptions hold, annual debt service payments could be as low as $6.7 million at a 4.0 percent interest rate and as high as $8.6 million at a 6.0 percent interest rate.

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BILL DESCRIPTION

Assembly Bill No. 222 (1R) of 2016 authorizes the issuance of $125,000,000 in State general obligation bonds to provide grants for the construction, expansion, and equipping of New Jersey's public libraries. The State backs the bonds with its taxing powers through a pledge of its full faith and credit to the payment of the required debt service. The State may issue the bonds in several series over time but the bill prohibits maturity periods of more than 35 years.

The bill directs the State Librarian, in consultation with the President of Thomas Edison State University, to establish eligibility criteria for the receipt of grants. The State Librarian, with the approval of the president, will prepare a list of eligible projects.

The grant award will support 50 percent of the cost of the project and the appropriate local governing entity in the area served by the public library will support 50 percent of the cost of the project. The bill authorizes the local governing entity to solicit and receive grants and other funds from any private source to support its required 50 percent share of the project.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS cannot conclusively project the total debt service cost the State General Fund will incur from issuing $125 million in general obligation bonds to provide grants for capital projects to New Jersey's public libraries. This is so because the final debt service cost will hinge upon the specific structure and terms of the authorized bond issuance. Both will be a function of bond market conditions and the Executive Branch's financial management preferences prevailing at the time of the bonds' initial offering.

Notwithstanding this limitation, the OLS conducts a sensitivity analysis that identifies possible State debt service payment scenarios. In performing the analysis the OLS makes the following simplifying assumptions: a) the State will borrow $125 million through a single bond issuance; b) the bonds' maturity period will be 35 years; c) two debt service payments will be made each year; d) the debt service payments will be uniform until the bonds' maturity; and e) the bond issuance will have a basic structure without any credit enhancements or original issue premiums or discounts.

For each scenario, the table on the following page displays annual debt service payments as well as total debt service and interest payments through maturity. The adjustable variable is the annual interest rate, which ranges from 4.0 percent to 6.0 percent. Regarding the interest rate choice, the OLS opts to place a one-percent band around the 5.0 percent interest rate the State secured in December 2016 for most annual debt service payments for the $300,000,000 of general obligation bonds issued for various purposes. The OLS cautions, however, that conditions actually existing in the bond market at the time of issuance may dictate interest rates outside of the OLS' band.

Debt Service Payment Scenarios for Issuance of $125 million in Bonds (In Thousands)					
	Annual Interest Rate				
	4.0%	4.5%	5.0%	5.5%	6.0%
Annual Debt Service	**$ 6,700**	**$ 7,100**	**$ 7,600**	**$ 8,100**	**$ 8,600**
Total Debt Service Payments	**$ 233,300**	**$ 249,400**	**$ 266,000**	**$ 283,000**	**$ 300,400**
A) Total Principal Payments	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 125,000
B) Total Interest Payments	$ 108,300	$ 124,400	$ 141,000	$ 158,000	$ 175,400

Accordingly, the OLS calculates that the State might incur total debt service costs ranging from $233 million to $300 million spread over 35 years, which includes total interest payments ranging from $108 million (87 percent of the $125 million borrowed) to $175 million (140% of the $125 million borrowed). The lower bound represents a 4.0 percent annual interest rate and the upper bound a 6.0 percent annual interest rate. If the assumptions hold, annual debt service payments could be as low as $6.7 million at a 4.0 percent interest rate and as high as $8.6 million at a 6.0 percent interest rate. The OLS further notes that total debt service would be lower if bonds were issued for a shorter term and all other assumptions remained the same.

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).