LEGISLATIVE FISCAL ESTIMATE

[Third Reprint]

SENATE, No. 2293

STATE OF NEW JERSEY
218th LEGISLATURE

DATED: NOVEMBER 1, 2018

SUMMARY

Synopsis:	"Securing Our Children's Future Bond Act"; authorizes issuance of $1,000,000,000 in general obligation bonds to finance certain school, school district, and county college capital projects; appropriates $5,000.
Type of Impact:	Increased annual debt service payments from General Fund.
Agencies Affected:	Department of Education; School Districts; County Colleges

Office of Legislative Services Estimate

Fiscal Impact	**FY 2019 through FY 2048**
Annual Debt Service Payments	Between $57.5 million and $72.3 million

- The Office of Legislative Services (OLS) cannot conclusively project the total debt service cost that the State would incur from issuing $1 billion in general obligation bonds to provide grants to support various capital projects for schools, school districts, and county colleges. The debt service costs would depend on the structure and terms of the authorized bond issuance, which would be a function of prevailing market conditions and the Executive Branch's financial management decisions.

- Given a set of plausible assumptions, it is possible to project a range of potential debt service costs. The OLS estimates that total debt service payments would range between $1.726 billion, assuming the bonds are issued at a four percent interest rate, and $2.168 billion, assuming a six percent interest rate. These assumptions would result in annual debt service payments between $57.5 million (at a four percent interest rate) and $72.3 million (at a six percent interest rate). At the lower end of the range, interest payments would total $726.0 million, or nearly 73 percent of the principal. At the higher end of the range, interest payments would total $1.168 billion (approximately 117 percent of the principal).

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BILL DESCRIPTION

This bill authorizes the issuance of $1 billion in general obligation bonds, the proceeds of which would be used to provide grants to county vocational school districts, county colleges, and other schools and school districts for various purposes: 1) $400 million would be used to provide grants to county vocational school districts, and $50 million would be provided to county colleges, for career and technical education grants, to be used to construct and equip educational facilities to expand existing or offer new career and technical education programs; 2) $450 million would be used to award grants to pay the cost of school facility security projects at schools offering grades kindergarten through 12; and 3) $100 million for school district water infrastructure project grants. In the case of grants awarded for career and technical education programs, the county that established the county college or county vocational school district would be required to support 25 percent of the cost of the project through cash or an in-kind contribution.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS cannot conclusively project the total debt service cost that the State would incur from issuing $1 billion in general obligation bonds to provide grants to support various capital projects for schools, school districts, and county colleges. The debt service costs would depend on the structure and terms of the authorized bond issuance, which would be a function of prevailing market conditions and the Executive Branch's financial management decisions.

It is possible, however, to develop a range of potential costs based on a series of assumptions. For the purpose of this analysis, these assumptions are: 1) the State will borrow the $1 billion through a single bond issuance; 2) the maturity period will be 30 years; 3) two debt service payments will be made annually; 4) the debt service payments will be uniform until the bonds' maturity; and 5) the bond issuance will have a basic structure without any credit enhancements or original issue premiums or discounts.

The following table displays annual debt service payments and total debt service and interest payments through maturity based on a range of interest rates. The OLS cautions, however, that prevailing conditions at the time of issuance may lead to interest rates outside of this range, resulting in debt service payments that differ from those shown below.

Debt Service Payment Scenarios for Issuance of $1 Billion in Bonds (In Millions)					
	Annual Interest Rate				
	4.0%	**4.5%**	**5.0%**	**5.5%**	**6.0%**
Annual Debt Service	**$ 57.5**	**$ 61.1**	**$ 64.7**	**$ 68.4**	**$ 72.3**
Total Debt Service Payments	**$ 1,726.1**	**$ 1,832.1**	**$ 1,941.2**	**$ 2,053.2**	**$ 2,168.0**
A) Total Principal Payments	$ 1,000.0	$ 1,000.0	$ 1,000.0	$ 1,000.0	$ 1,000.0
B) Total Interest Payments	$ 726.1	$ 832.1	$ 941.2	$ 1,053.2	$ 1,168.0

Section: *Education*

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