Overview of Debt Affordability House Public Works & Highways Committee

NEW HAMPSHIRE STATE TREASURY

JANUARY 14, 2021

Objective

- How does Treasury determine the amount to be recommended in developing the Capital Budget?
- Overview of the debt limits (debt affordability tools)
- How does Treasury calculate the debt metrics that help us evaluate debt affordability?

Debt Affordability Tools

- The Debt Affordability Study is prepared by the State Treasury and the State's financial advisor, Public Resources Advisory Group. This study calculates debt metrics (total debt to personal income, total net debt per capita, net debt service to general fund revenues) that project whether the State's debt levels will remain manageable over the course of several years. We pay particular attention to the debt to revenue ratio as the rating agencies measure excessive debt service burden using this metric.

- The Debt Limit Calculation prescribed in RSA 6-C:2 prohibits the Legislature from authorizing any additional net tax-supported debt (or debt paid with general funds) that would result in actual and projected debt service exceeding 10% of unrestricted general fund (GF) revenues for the previous fiscal year (or $162.2 million in 2020, 10% of FY2019 GF revenue). The results from this calculation generally reflect a higher cap than the recommendations provided in the Debt Affordability Study, however, this statutory limit serves as a guardrail to prevent excessive borrowing.

FY 2019 Debt Affordability Study
Using Biennial Bonding Authorizations of $120 million

	Fiscal Year (in thousands)					Moody's Median
	2020	2021	2022	2023	2024	2020[1]
Net General Fund Debt[2]	$567,418	$558,186	$551,427	$549,293	$546,477	
Total Net Debt to Personal Income	0.6%	0.6%	0.6%	0.6%	0.6%	2.0%
Total Net Debt Per Capita	$416	$409	$403	$401	$398	$1,071
Net Debt Service to General Fund Revenues[3]	6.8%	6.5%	6.4%	6.2%	6.2%	3.8%[4]

(1) From Moody's *2020 State Debt Medians Report,* which is based on calendar year and FY 2019 data.
(2) Includes school building aid debt.
(3) Using FY 2020 GF revenues.
(4) "Rule of thumb" of 10% is used by credit analysts to warn of excessive debt service burden.

RSA 6-C:2 Debt Limit

Fiscal Year	Current Actual General Fund Debt Service	Amortization of 254M in General Fund Bonds Authorized & Unissued	$166M Guaranteed General Fund Debt	Total Projected General Fund Debt Service		10% of FY 2019 General Fund Unrestricted Revenues	Less: Total Projected General Fund Debt Service	Remaining Debt Service Authorizations Allowable	
2020	90,896,878	6,350,000	6,962,816	104,209,694		162,200,200	104,209,694	57,990,506	
2021	85,373,717	20,189,950	8,465,299	114,028,966		162,200,200	114,028,966	48,171,234	(a)
2022	76,642,622	20,180,250	10,341,354	107,164,227		162,200,200	107,164,227	55,035,973	
2023	66,474,099	20,169,875	12,218,500	98,862,474		162,200,200	98,862,474	63,337,726	
2024	61,183,247	20,158,850	13,117,435	94,459,532		162,200,200	94,459,532	67,740,668	
2025	55,922,580	20,148,125	14,016,371	90,087,076		162,200,200	90,087,076	72,113,124	
2026	47,595,512	20,136,600	13,898,734	81,630,846		162,200,200	81,630,846	80,569,354	

(a) Correlates to $600M in authorizations

Using the debt affordability study methodology, authorizing up to $600 million would cause the debt to revenue ratio to increase to approximately 8.5%-9.5% for the first few years.

Bonding Considerations

- The debt to revenue ratio of 10% is the “warning” level monitored by rating agencies. The 2020 Moody’s national median for debt service to GF unrestricted revenue was 3.8%.

- From 2000-2011, NH’s ratio averaged 6.1%, however, the average reached 7.3% from 2012-2020 (2020 ratio is preliminary).

2012	2013	2014	2015	2016	2017	2018	2019	2020
7.8%	7.7%	8.4%	8.2%	7.3%	6.8%	6.4%	6.4%	6.8%

- Revenues can be difficult to estimate, conversely, debt levels can be managed.

- The rating agencies consistently praise the State’s debt levels and debt management practices as conservative, one of the credit positives that responds predictably to budgetary policy.

- Maintaining borrowing capacity for unanticipated capital needs is prudent (ex. Concord steam, PFAS remediation project, deteriorating infrastructure, policy initiatives that require significant funding, etc.).

State Treasury Publications

- Official Statements and Supplemental Disclosures
- Debt Affordability Study
- RSA 6-C:2 Debt Limit Certification

https://www.nh.gov/treasury/forms-publications/index.htm#bonds

- Treasury Dashboard
- https://www.nh.gov/treasury/

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