

# Bonding Authorization and Debt Affordability

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NEW HAMPSHIRE STATE TREASURY

MARCH 6, 2023

# Debt Affordability

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- 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 unrestricted revenues) that project whether the State's debt levels will remain manageable over the next few fiscal 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 (debt paid with general funds) that would result in actual and projected debt service exceeding 10% of unrestricted general fund revenues for the previous fiscal year. --- This statutory limit serves as a guardrail to prevent excessive borrowing.

# FY 2022 Debt Affordability Study

## Using Bonding Authorization of \$60 million per Fiscal Year

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	Fiscal Year (in thousands)					Moody's Median
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	2022 <sup>(1)</sup>
Net General Fund Debt <sup>(2)</sup>	\$507,818	\$509,035	\$510,335	\$511,844	\$516,267	N/A
Total Net Debt to Personal Income	0.5%	0.5%	0.4%	0.4%	0.4%	2.1%
Total Net Debt Per Capita	\$ 364	\$ 363	\$ 362	\$ 361	\$ 363	\$ 1,179
Net Debt Service to General Fund Revenue <sup>(3)</sup>	4.0%	4.0%	4.1%	4.1%	4.0%	N/A

(1) From Moody's 2022 State Debt Medians Report, which is based on calendar year and FY 2021 data.

(2) Includes school building aid debt.

(3) Using FY 2022 Unrestricted 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 (preliminary)

Fiscal Year	Current Actual General Fund Debt Service	Projected Debt Service -		Total Projected General Fund Debt Service	10% of FY 2022 General Fund Unrestricted Revenues	Less: Total Projected General Fund Debt Service	Annual Debt Service Capacity
		\$316.5M GF Bonds Authorized & Unissued	Projected Debt Service - \$159M Guaranteed Debt				
2023	73,164,015	7,912,500	7,765,113	88,841,628	199,102,600	88,841,628	110,260,972
2024	67,580,661	25,157,700	9,875,914	102,614,275	199,102,600	102,614,275	<b>96,488,325 (a)</b>
2025	61,706,040	25,145,150	11,986,714	98,837,904	199,102,600	98,837,904	100,264,696
2026	53,242,519	25,133,075	14,087,052	92,462,646	199,102,600	92,462,646	106,639,954
2027	50,822,136	25,120,225	15,209,180	91,151,541	199,102,600	91,151,541	107,951,059
2028	44,281,130	25,106,325	14,207,626	83,595,081	199,102,600	83,595,081	115,507,519
2029	38,361,576	25,091,050	14,207,626	77,660,252	199,102,600	77,660,252	121,442,348

(a) Correlates to **\$1,202 million** in authorizations

- Debt to revenue ratio of 10% is the “warning” level monitored by rating agencies.

# Bonding Considerations

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- GO borrowing costs largely influenced by State's credit rating. Rating agencies evaluate State's financial condition and operating results focusing on:
  - Rainy Day Fund balance
  - Structural budget balance or imbalance
  - Medicaid, pension, and post-employment benefit obligations and funding levels
  - Stability and diversity of revenue sources
  - Legislative flexibility to manage revenues, expenditures, and reserves
- The rating agencies praise the State's debt levels and debt management practices, one of the credit positives that responds predictably to budgetary policy.
- NH's ratio has improved significantly over the last 10 years.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
7.7%	8.4%	8.2%	7.3%	6.8%	6.4%	6.4%	6.7%	5%	4%

# Bonding Considerations

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- Borrowing costs are higher and expected to remain at that level for sometime.
- Presently, the amount of “authorized and unissued” General Obligation debt is \$316.5 million, which represents bonding authorizations for capital projects that have not yet begun spending.
- Maintaining borrowing capacity for unanticipated capital needs is deemed prudent.
- New Hampshire Credit Ratings:
  - Aa1, stable outlook from Moody’s
  - AA+, stable outlook from Fitch
  - AA, positive outlook from S&P

# State Treasury Publications

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

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