STATE BUILDING AUTHORITY DEBT: HOW MUCH IS TOO MUCH?

by Mike Hansen, Fiscal Analyst

When the Legislature adjourned for its summer recess in June, it had completed action on all of the annual appropriation bills except one, funding for capital outlay. It is generally not considered critical that the capital outlay budget be in place by the start of the fiscal year given that, unlike most other budget bills, the capital outlay budget does not provide funding for employee salaries, which typically must be in place in order for State workers to be paid in the new fiscal year. Instead, the capital outlay bill generally contains funding for construction, renovation, and special maintenance projects for State agencies, colleges, and universities. The only appropriation that must be enacted by October 1, is State Building Authority rent, which provides payments for debt service on bonds used to fund past building projects. The Legislature provided a rent payment of $252.6 million for fiscal year (FY) 1999-2000 in Public Act 137 of 1999 before the summer recess.

While many of the items in the capital outlay bill tend to be somewhat routine (such as funding for State agency special maintenance, State park and waterway improvements, transportation field offices and maintenance garages, and airport improvement projects), the bill also usually contains at least a few new building projects at colleges, universities, and State agencies. These projects are often recommended for funding by the Governor, but also can develop as initiatives by the Legislature. Usually, new building projects are funded by the sale of bonds through the State Building Authority (somewhat like a mortgage on a new house), and their appropriations tend not to be constrained by the overall revenue limits of other General Fund budget spending. A significant control on spending for new building projects, however, is the statutory limit on total debt issued by the State Building Authority.

The State Building Authority (SBA) was created by PA 183 of 1964 for the purpose of constructing and renovating State buildings, including building projects at public institutions of higher education. Due to the constitutional prohibition against the State's entering into debt without a vote of the people, the SBA actually takes ownership of a construction project and finances the project through the issuance of revenue bonds, which are limited obligations of the Authority and not general obligations of the State. The State then rents the building from the SBA at a true market rental rate established by an appraiser. The SBA uses those rent payments to make debt service payments on the bonds until they are retired, at which time the building is deeded back to the State.

Public Act 183 as amended limits the maximum allowable debt that may be outstanding at any one time. This limit, often referred to as the "bond cap", is currently set at $2.7 billion. Table 1 outlines the adjustments in debt limits since their inception. As the table indicates, the bond limit has doubled since 1993, when it was $1.35 billion.

Table 1
STATE BUILDING AUTHORITY
BOND LIMIT HISTORY

Public Act	Debt Limit (in millions)
PA 183 of 1964	$400.0
PA 206 of 1985	775.0
PA 119 of 1987	1,350.0
PA 35 of 1993	2,000.0
PA 127 of 1997	2,700.0

Source: Compiled by the Senate Fiscal Agency.

While there is a continuing (and arguably necessary) debate regarding the appropriate level of SBA debt, the bond cap is similar to a credit limit on a credit card--the debt limit set in statute does not mean that the State will incur $2.7 billion in debt, only that it is authorized to do so. As reference, Table 2 (on page 8) compares total state government debt, on a per capita basis, among the 50 states. In Michigan, SBA debt accounts for approximately 12% of total debt. As the data indicate, Michigan is below the national average for total per capita debt obligation.

It is currently estimated that the SBA has roughly $1.75 billion in outstanding debt, meaning that there is about $950 million in available "bond cap". It is important to remember, however, that the bond cap is a very fluid number--as new debt is incurred (as bonds for new projects are sold) debt on past projects is being retired (as rent payments are made). Consequently, in order to estimate how much bond cap is available for future projects, one must calculate the cost of future bond issues for projects currently authorized but not yet in construction, and the amount of anticipated renewed capacity that becomes available as debt is retired. Thus, while a snapshot of today's available bond capacity (how much the Legislature could spend on new construction projects) indicates $950 million in available spending, projections into FY 2001-2002 show that just $490 million will be available for spending.

Table 2
TOTAL STATE GOVERNMENT DEBT, PER CAPITA, BY STATE: 1996

State	Per Capita Debt Outstanding	State	Per Capita Debt Outstanding
50 State Average	$1,690		
Alabama	850	Montana	2,560
Alaska	5,251	Nebraska	850
Arizona	662	Nevada	1,411
Arkansas	855	New Hampshire	5,027
California	1,439	New Jersey	3,199
Colorado	937	New Mexico	1,254
Connecticut	5,024	New York	4,032
Delaware	5,914	North Carolina	618
Florida	1,076	North Dakota	1,274
Georgia	845	Ohio	1,131
Hawaii	4,326	Oklahoma	1,180
Idaho	1,224	Oregon	1,904
Illinois	1,914	Pennsylvania	1,250
Indiana	1,050	Rhode Island	5,571
Iowa	725	South Carolina	1,433
Kansas	450	South Dakota	2,310
Kentucky	1,811	Tennessee	578
Louisiana	1,717	Texas	763
Maine	2,551	Utah	1,221
Maryland	1,915	Vermont	2,929
Massachusetts	4,814	Virginia	1,319
Michigan	**1,405**	Washington	1,629
Minnesota	1,045	West Virginia	1,555
Mississippi	823	Wisconsin	1,773
Missouri	1,329		

Source: U.S. Bureau of the Census

While $490 million for new building projects may sound like a lot of money, a new maximum security prison can cost $75.0 million, and large projects at major universities can cost even more. Barring upward adjustments in the bond cap, $490 million in available spending can quickly be depleted. In addition, as a rule of thumb, every $10 million in new construction debt requires an annual appropriation of $1.0 million in rent (debt service). As shown in Figure 1, with annual rental payments to the SBA now over $250 million (roughly the amount of General Fund money that supports the entire Department of State Police), the Legislature must consider how much General Fund money it wants to dedicate for payment on new buildings.