

AN UPDATE ON THE STATE BUILDING AUTHORITY BOND CAP

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Financing construction projects at public colleges, universities, and State agencies typically occurs in one of two ways. The projects are either paid for with cash, or financed using bond proceeds issued through the State Building Authority (SBA). There is a limit, however, on the amount of bond debt that the SBA can issue, often referred to as the “bond cap”. This limit is defined in statute and is currently set at \$2.7 billion. A history of legislative adjustments to the bond cap is displayed in [Table 1](#). It is the amount of bond capacity below the cap that is available for financing the construction of new projects.

Table 1

State Building Authority Bond Limits	
Authorization	Amount (in millions)
Public Act 183 of 1964	\$400.0
Public Act 206 of 1985	\$775.0
Public Act 119 of 1987	\$1,350.0
Public Act 35 of 1993	\$2,000.0
Public Act 127 of 1997	\$2,700.0

The available bond capacity has been decreasing recently due to the increased number of new State-financed construction projects at colleges, universities, and State agencies. Since 1993, the State has authorized 55 building projects at community colleges, totaling \$566.5 million; 52 projects at universities, totaling \$1.8 billion; and nearly 60 projects for State agencies, totaling \$1.2 billion. The combined SBA obligation for all of these projects is nearly \$2.5 billion. When one adds to that figure the estimated cost for projects that have received legislative planning authorization, the amount of available bond capacity for any new projects is projected to be between \$80.0 million and \$90.0 million.

While there are legal, economic, and even philosophical reasons that influence the decision of whether to pay cash or sell bonds in order to finance a new construction project, the decision is often based on the relative availability of one form of financing over another. When the State’s budget experiences times of strong revenue, cash spending on capital outlay projects increases. In 1998 and 1999, for example, State revenues grew at very strong levels, providing significant budget surpluses. Those years also witnessed cash financing for two major construction projects, the \$87.8 million Hall of Justice building in Lansing, and the \$95.1 million new Forensic Center for the Department of Community Health in Ypsilanti. In addition, several smaller projects received cash financing, and \$75.0 million was appropriated for State agency special maintenance projects.

As the economy began to slow during fiscal year 2000-01, and cash for the operations of State programs became scarce, the Legislature began to look for ways to ease the demand for cash. One of the solutions developed involved the shift from paying cash for several of the projects appropriated, to financing through the SBA. While this had the effect of “freeing-up” nearly \$235 million in cash, it placed a corresponding constraint on the amount of debt capacity left under the SBA’s bond cap. Available debt capacity projections that had started the year around \$324 million, fell to around \$90 million after these financing shifts were enacted by year-end.

The impact of these decisions was twofold. First, they had the effect of providing General Fund revenue that might have spared State agencies program reductions that otherwise could have occurred. Second, these actions

curtailed the Legislature's ability to commit to much in the way of new construction projects for the future. While \$90 million in available capacity may seem like plenty of authority, it is in fact about the amount of money needed to construct just one new prison.

Finally, it is also important to remember the impact SBA debt has on future General Fund appropriations. When a project nears completion, the Legislature approves a concurrent resolution that conveys ownership of the project to the SBA, in part to provide security to bond holders. The SBA then rents the facility back to the State. The SBA uses the rent money to pay off the bonds and satisfy the debt obligations of the project. As a rule of thumb, every \$10 million in new bond debt issued through the SBA results in a required annual appropriation of \$1.0 million in rent money to the SBA for debt service. As [Figure 1](#) describes, annual rental payments to the SBA have been growing recently and are now around \$280 million. Consequently, the decision to finance new building projects does not just involve available financing options today, but also must consider the impact on the State's General Fund in the future.

Figure 1

