LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 2693
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: MARCH 20, 2018

SUMMARY

Synopsis: "Water Infrastructure Improvement Bond Act of 2018," authorizes bonds for $400,000,000, and appropriates $5,000.

Type of Impact: Increased multi-year State debt service payments from General Fund.

Agencies Affected: Department of Treasury.

Office of Legislative Services Estimate

Fiscal Impact	Fiscal year 2019 through Fiscal Year 2049
Annual State Debt Service Costs	Between $22,900,000 and $28,800,000

- The Office of Legislative Services (OLS) cannot conclusively project the total debt service cost the State will incur from issuing $400 million in general obligation bonds to provide grants, zero interest loans, and other financial assistance to local government units and utilities to finance the cost of water infrastructure improvement projects. The final debt service cost will hinge upon the specific structure and terms of the authorized bond issuance. Both will be a function of bond market conditions and the Executive Branch's financial management preferences prevailing at the time of the bonds' initial offering.

- Nevertheless, after making certain plausible assumptions, the OLS projects that the State might incur total debt service costs ranging from $687 million to $863 million spread over 30 years, which includes total interest payments ranging from $287 million (72 percent of the $400 million borrowed) to $463 million (115 percent of the $400 million borrowed). The lower bound represents a 4.0 percent annual interest rate and the upper bound a 6.0 percent annual interest rate. If the assumptions hold, annual debt service payments could be as low as $22.9 million at a 4.0 percent interest rate and as high as $28.8 million at a 6.0 percent interest rate.

BILL DESCRIPTION

This bill, entitled the "Water Infrastructure Improvement Bond Act of 2018," would authorize the issuance of $400 million in State general obligation bonds for the purpose of providing grants, zero interest loans, and other financial assistance to local government units and utilities to finance the cost of water infrastructure improvement projects. The State backs the bonds with its taxing powers through a pledge of its full faith and credit to the payment of the

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required debt service. The State may issue the bonds in several series over time, but the bill prohibits maturity periods of more than 35 years.

Of the $400 million in bonds authorized under the bill:

(1) $100 million would be allocated to the Department of Environmental Protection (DEP) for the purpose of providing matching grants and zero interest loans to local government units to finance the cost of projects to repair and rehabilitate public water systems, including projects to reduce water loss;

(2) $100 million would be allocated to the DEP for the purpose of providing matching grants to local government units and investor-owned water companies to finance the cost of lead service line replacement projects that primarily benefit at-risk populations, such as pregnant women and children, in economically-distressed areas;

(3) $100 million would be allocated to the DEP for the purpose of providing grants, zero interest loans, or other financial assistance to local government units to finance the cost of combined sewer overflow abatement projects, including projects that reduce sewer flows through inflow and infiltration reduction, water conservation projects, and green infrastructure projects;

(4) $50 million would be allocated to the New Jersey Infrastructure Bank, formerly the New Jersey Environmental Infrastructure Trust (trust), for the purpose of establishing reserves and providing loan guarantees for stormwater management and combined sewer overflow abatement projects financed under the New Jersey Environmental Infrastructure Financing Program (NJEIFP);

(5) $25 million would be allocated to the trust for the purpose of providing grants to local government units to finance the cost of developing asset management programs for public water systems, wastewater treatment systems, and stormwater management systems; and

(6) $25 million would be allocated to the trust for the purpose of providing grants to local government units to finance the costs of developing long-term control plans for their combined sewer systems.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS cannot conclusively project the total debt service cost the State General Fund will incur from issuing $400 million in general obligation bonds to provide grants, zero interest loans, and other financial assistance to local government units and utilities to finance the cost of water infrastructure improvement projects. The final debt service cost will hinge upon the specific structure and terms of the authorized bond issuance. Both will be a function of bond market conditions and the Executive Branch's financial management preferences prevailing at the time of the bonds' initial offering.

Notwithstanding this limitation, the OLS conducts a sensitivity analysis that identifies possible State debt service payment scenarios. In performing the analysis, the OLS makes the following simplifying assumptions: a) the State will borrow $400 million through a single bond issuance, b) the bonds' maturity period will be 30 years, c) two debt service payments will be made each year, d) the debt service payment will be uniform until the bonds' maturity, and e) the bond issuance will have a basic structure without any credit enhancements or original issue premiums or discounts.

For each scenario, the table below displays annual debt service payments as well as total debt service and interest payments through maturity. The adjustable variable is the annual interest rate, which ranges from 4.0 percent to 6.0 percent. Regarding the interest rate choice, the OLS opts to place a one-percent band around the 5.0 percent interest rate the State secured in December 2016 for most annual debt service payments for the $300,000,000 of general obligation bonds issued for various purposes. The OLS cautions, however, that conditions actually existing in the bond market at the time of issuance may dictate interest rates outside of the OLS' band.

Debt Service Payment Scenarios for Issuance of $400 million in Bonds (In Thousands)

	Annual Interest Rate				
	4.0%	**4.5%**	**5.0%**	**5.5%**	**6.0%**
Annual Debt Service	**$ 22,900**	**$ 24,300**	**$ 25,800**	**$ 27,300**	**$ 28,800**
Total Debt Service Payments	**$ 687,500**	**$ 729,600**	**$ 773,000**	**$ 817,600**	**$ 863,400**
A) Total Principal Payments	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000
B) Total Interest Payments	$ 287,500	$ 329,600	$ 373,000	$ 417,600	$ 463,400

Accordingly, the OLS calculates that the State might incur total debt service costs ranging from $687 million to $863 million spread over 30 years, which includes total interest payments ranging from $287 million (72 percent of the $400 million borrowed) to $463 million (115 percent of the $400 million borrowed). The lower bound represents a 4.0 percent annual interest rate and the upper bound a 6.0 percent annual interest rate. If the assumptions hold, annual debt service payments could be as low as $22.9 million at a 4.0 percent interest rate and as high as $28.8 million at a 6.0 percent interest rate.

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