HOUSE OF REPRESENTATIVES
COMMITTEE ON
FINANCE AND TAXATION
FINAL BILL RESEARCH & ECONOMIC IMPACT STATEMENT

BILL #: HB 4527

RELATING TO: House Joint Resolution - Section 9, Article XII - State Bonds

SPONSOR(S): Committee on Finance & Taxation

COMPANION BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) FINANCE AND TAXATION YEAS 14 NAYS 0
(2)
(3)
(4)
(5)

I. FINAL ACTION STATUS:

Died in Committee on Rules, Resolutions, and Ethics.

II. SUMMARY:

HB 4527 by the Committee on Finance and Taxation would propose a constitutional amendment to be approved by the voters at the general election in November. The amendment, if adopted, inserts the phrase “other legally available pledged revenues” into Section 9, subsection (a)(2), Article XII of the State Constitution of Florida. This change would permit other legally available revenues to be pledged for payment of bonds issued pursuant to Section 9, subsection (a)(2), Article XII of the State Constitution of Florida.

This amendment will allow other state bonds to be issued for PECO purposes with the full faith and credit of the State of Florida (bonds issued with the full faith and credit are known as general obligation bonds), but serviced by other pledged revenues at a lower cost than revenue bonds.

The Division of Bond Finance estimates the present value savings to be between $28 and $38 million on the recent $2.5 billion 30-year lottery bond authorization; however, there are other indicators that point to greater savings than those estimated.

III. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

AUTHORITY
Section 11 of Article VII of the Florida Constitution authorizes the State to issue state bonds with the "full faith and credit of the state" to only finance or refinance state fixed capital outlay projects that are authorized by law and approved by the electors. Section 11 also provides that the Legislature shall appropriate sufficient moneys to pay any debt service on State bonds issuing the "full faith and credit of the State." The "full faith and credit" clause, in essence, places the general obligation of the State treasury behind the bonds issued. The outstanding principle of bonds issued under this authority may not exceed fifty percent of the revenues for the previous two fiscal years, excluding any monies held in trust.

The State is also authorized in Article VII, Section 11 to issue revenue bonds, without a vote of the electors, to finance or refinance state fixed capital outlay projects authorized by law and the debt service of which is payed by funds other than state tax revenues. These bonds are backed by specifically pledged taxes and revenues. Examples of these programs are P2000 and Florida Turnpike revenue bonds. State and revenue Bonds are administered by the Division of Bond Finance of the State Board of Administration according to s. 215.64, F.S.

Section 9 of Article XII creates the Public Education Capital Outlay and Debt Service Trust Fund (PECO) in which all gross receipt's taxes collected under chapter 203, F.S. are to be deposited. PECO funds, administered by the State Department of Education, may be bonded without a vote of the electors to finance or refinance capital projects authorized by the legislature for the State public education system, including K-12, vocational/technical schools, community colleges, and universities. Any bonds issued under this part cannot have a maturity date of greater than thirty years from the date of issue. The limit on bonds issued is set so that the debt service for the bonds cannot be greater than ninety percent of the gross receipts revenues.

The State had approximately $11.8 billion in outstanding bonds as of June 30, 1997. The distribution is as follows:

Education	$7.1 B
Environment	$2.3 B
Transportation	$2.1 B
State Facilities	$.3 B

The estimated debt service on these bonds is $1.0466 billion for Fiscal Year 1997-98. This represents 2.47% of all State appropriations.

GENERAL OBLIGATION BONDS
Florida general obligation bonds currently have a rating of Aa by Moody's Bond Service, a widely used bond rating service where Aaa is the highest rating received and C is the lowest. When a revenue bond issue is marketed, it usually will not receive a higher rating than A or Baa, but an Aaa rating can be obtained through the purchase of premium insurance. In the present market environment, Florida general obligation bonds tend to receive comparable interest rates and trade at similar prices as Aaa rated bond even though they have a lower rating. This is widely attributed to the good standing of the State's credit reputation in the bond market. This means that a Florida

general obligation bond will be able to trade at a similar cost to an Aaa bond, but without the added expense associated with revenue bonds and premium insurance.

LOTTERY REVENUE BONDS

In November, 1997, The Legislature authorized the State-issuance of School Capital Outlay Bonds backed by lottery proceeds under authority of Section 11(d), Article VII of the State Constitution. In 1997-98, and for 30 years thereafter, a maximum of $180 million from the Educational Enhancement Trust Fund is reserved annually for the payment of these bonds. These lottery revenue bonds, when marketed, will require premium insurance to receive a more favorable bond rating, and, in turn, a lower interest rate.

B. EFFECT OF PROPOSED CHANGES:

This bill would place a constitutional amendment to be approved by the voters on the ballot for the general election in November. The amendment, if adopted, would permit other legally available revenues to be pledged for payment of bonds issued pursuant to Section 9, subsection (a)(2), Article XII of the State Constitution of Florida.

This amendment will allow other State bonds to be issued for PECO purposes as general obligation bonds, but serviced by pledged revenues other than gross receipts taxes at a lower cost than revenue bonds. As currently drafted, the constitutional limitation on PECO bonds requiring that the debt service on outstanding bonds not exceed ninety percent of gross receipts tax revenues will be increased to ninety percent of gross receipts taxes and other legally available pledged revenues.

The amendment, if adopted by the electors in the November, 1998 elections, will take effect on the first Tuesday after the first Monday in January 1999.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

None.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

None.

(3) any entitlement to a government service or benefit?

None.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

None

b. Does the bill require or authorize an increase in any fees?

None.

c. Does the bill reduce total taxes, both rates and revenues?

None

d. Does the bill reduce total fees, both rates and revenues?

None.

e. Does the bill authorize any fee or tax increase by any local government?

None

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

N/A

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

N/A

4. Individual Freedom:

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Article XII, Section 9, State Constitution

E. SECTION-BY-SECTION RESEARCH:

This section need be completed only in the discretion of the Committee.

IV. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

It is estimated that this amendment will enable the legislature to experience substantial savings on the recent $2.5 billion lottery bonds authorization for school construction. There is some speculation as to how much the legislature will actually save. Differences in estimates stem mostly from speculation on how the market will react to the lottery bond issue. Only two other states, Oregon and West Virginia, have issued lottery bonds and these were both well received; however, the size of the issuances were much smaller and may not be not be comparable to Florida's offering.

Since a Florida full faith and credit bond would not require premium insurance, there would be saving on the effective cost of the premium insurance. There is greater potential savings if the full faith and credit bonds that would be issued pending the adoption of the amendment and statutory change have a lower interest rate than the Aaa lottery bonds with premium insurance. The Division of Bond Finance anticipates the majority of savings to result from the effective cost of the premium insurance. They estimate the present value savings to be between $16.4 and $24.6 million on $2 billion of the lottery bond issues that would otherwise have to be issued with the premium insurance. Under the Division of Bond Finance's assumptions, $500 million of the $2.5 would not be able to be insured due to capacity limitations on premium insurance. The cost effective saving received from general obligation bonds versus those bonds that would have to be marketed without premium insurance would be approximately $12 million. There are private groups who anticipate these savings to be greater, but estimates based on those assumptions are unavailable at this time.

3. Long Run Effects Other Than Normal Growth:

   This will increase the capacity of PECO bonding by allowing more funds other than gross receipts to be used.

4. Total Revenues and Expenditures:

   N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   N/A

2. Recurring Effects:

   N/A

3. Long Run Effects Other Than Normal Growth:

   N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   N/A

2. Direct Private Sector Benefits:

   N/A

3. Effects on Competition, Private Enterprise and Employment Markets:

   N/A

D. FISCAL COMMENTS:

This amendment, if adopted by the electors, could significantly reduce the cost of lottery revenue bonds issued for school construction in the recent special session; however, Statutory changes would be required to allow for this. The current lottery bond issue for school construction is issued under the authority of Section 11, Article VII of the State Constitution with a statutory reference to the same. The statutory reference would need to be changed to Section 9, Article XII of the State Constitution.

V. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

N/A

B. REDUCTION OF REVENUE RAISING AUTHORITY:

N/A

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

N/A

VI. COMMENTS:

Through the adoption of this amendment, another revenue stream for PECO projects is made available to the Legislature that is more cost effective than conventional revenue bonds. While the ability for lower cost bonding is made available, the approval of this amendment could potentially have a detrimental impact on future PECO bond issues.

VII. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

A technical amendment was adopted in the Committee on Finance and Taxation. The amendment changed the bond limit on debt service from ninety percent of gross receipts taxes to ninety percent of gross receipts taxes AND other legally available pledged revenues.

VIII. SIGNATURES:

COMMITTEE ON FINANCE AND TAXATION:

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