# Informational Hearing on Debt Service

## Legislative Analyst's Office

**Presented to:**

**Assembly Budget Committee**

**December 14, 2009**

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# How Does the Legislature Affect Debt Service?

- **Over the longer run, the Legislature has virtually total control over debt service.**
  - Determines bond amounts submitted to the voters.
  - Authorizes lease-revenue bonds.

- **Exception: Voter-approved initiative bond measures.**

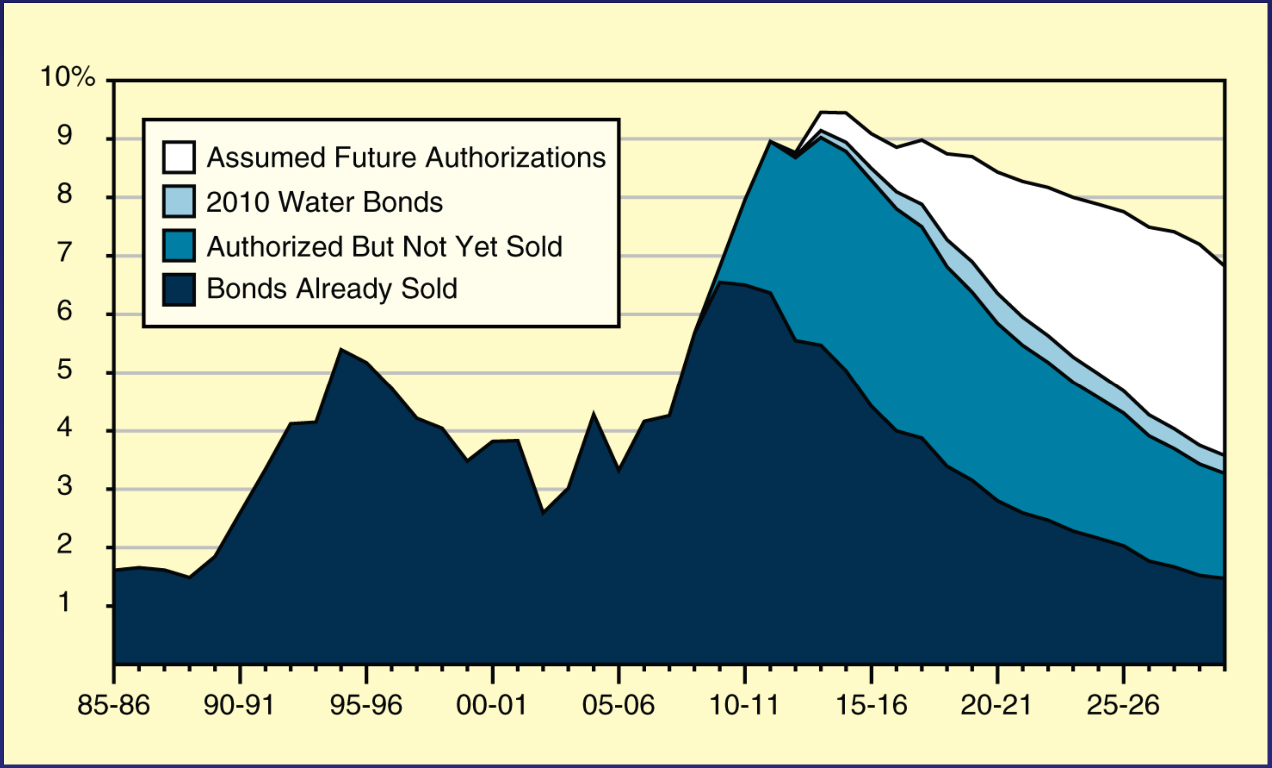
# Legislature Also Has Considerable Control in the Shorter Term

- Most bond proceeds must be appropriated by the Legislature.
  - Biggest exception: K-12 bonds.

- The Legislature can statutorily suspend authority for previously authorized lease-revenue bonds.

# Projected Debt Service Ratio

(As a Percent of General Fund Revenues)



# Is There a "Right" Level of Debt Service?

- **No.**
  - Ratio will vary significantly with changes in revenues.
  - Ratio should vary based on state's capital outlay needs.
- **Trade-off is with the hit on budget.**
  - $70 million in debt service for each $1 billion in bonds sold.

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# How Can the Legislature Better Control Its Debt Service Payments?

- **State has a five-year infrastructure plan.**

  Not changed the administration's or the Legislature's approach to capital budgeting.

- **Treasurer proposes a Master Plan.**

  Takes planning process further.

- **The Legislature should do more.**

  Create a Joint Committee on Infrastructure.

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# What Would a Joint Infrastructure Committee Do?

- Assess the annual five-year plan.
- Assign state/local responsibilities.
- Maximize use of non-General Fund revenues.
- Maximize use of existing facilities.