

Debt Service - State Treasurer

OTT14100

Budget Summary

Account	Actual FY 23	Actual FY 24	Appropriation FY 25	Governor Recommended		Legislative	
				FY 26	FY 27	FY 26	FY 27
Other Current Expenses							
Debt Service	1,979,815,182	2,185,333,369	1,985,729,226	1,982,214,696	2,041,951,996	1,982,214,696	2,041,951,996
UConn 2000 - Debt Service	216,188,806	205,492,442	226,542,388	209,033,862	213,698,862	209,033,862	213,698,862
CHEFA Day Care Security	3,667,508	3,643,210	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Pension Obligation Bonds - TRB	306,680,521	315,671,921	330,190,921	268,251,771	284,364,458	268,251,771	284,364,458
Grant Payments to Local Governments							
Municipal Restructuring	54,098,049	49,833,072	47,910,459	46,126,129	47,778,925	46,126,129	47,778,925
Agency Total - General Fund	2,560,450,066	2,759,974,014	2,594,372,994	2,509,626,458	2,591,794,241	2,509,626,458	2,591,794,241
Debt Service	810,726,881	862,969,139	951,115,534	914,650,787	1,025,610,574	914,650,787	1,025,610,574
Agency Total - Special Transportation Fund	810,726,881	862,969,139	951,115,534	914,650,787	1,025,610,574	914,650,787	1,025,610,574
Total - Appropriated Funds	3,371,176,947	3,622,943,153	3,545,488,528	3,424,277,245	3,617,404,815	3,424,277,245	3,617,404,815

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 26	FY 27	FY 26	FY 27	FY 26	FY 27

Policy Revisions

Maintain Current Treatment of General Obligation Bond Premium

Debt Service	(20,000,000)	(60,000,000)	(20,000,000)	(60,000,000)	-	-
Total - General Fund	(20,000,000)	(60,000,000)	(20,000,000)	(60,000,000)	-	-

Background

Bond premium represents additional funding investors provide when bonds are issued in order to secure desired terms, and result in additional funds being made available to the state beyond the underlying value of the bonds.

In general, bond premium can either be used for projects - reducing the amount of bonds that need to be issued - or can be used to offset a portion of debt service costs for two to three years after the bonds are issued. Current statute (CGS 3-20j) requires that premium generated from the state's most common General Obligation (GO) bonds, tax exempt fixed rate bonds, be used to offset General Fund debt service costs for bonds issued prior to FY 26 and that premium related to GO bonds issued in FY 26 and beyond would be made available for projects. Bonds backed by the Special Transportation Fund and bonds for the UConn 2000 program both use premium for project costs.

Premium proceeds are dependent on market conditions and the state's credit position. Current service debt service projections for FY 26 and FY 27 include savings generated from premiums in CY 23 and CY 24 bond issuances. Recent market factors, especially higher market interest rates, have limited the availability of bond premium.

Governor

Reduce debt service appropriations by \$20 million in FY 26 and \$60 million in FY 27 to reflect in-biennium savings as a result of delaying statutory requirements regarding the continued use of premium for current debt service requirements. The Governor's proposed change would delay the requirement that bond premiums be used for projects beginning in FY 26 to FY 28.

Legislative

Same as Governor

Account	Governor Recommended		Legislative		Difference from Governor	
	FY 26	FY 27	FY 26	FY 27	FY 26	FY 27

Current Services

Reflect Debt Service Requirements

Debt Service	16,485,470	116,222,770	16,485,470	116,222,770	-	-
UConn 2000 - Debt Service	(17,508,526)	(12,843,526)	(17,508,526)	(12,843,526)	-	-
Pension Obligation Bonds - TRB	(61,939,150)	(45,826,463)	(61,939,150)	(45,826,463)	-	-
Municipal Restructuring	(1,784,330)	(131,534)	(1,784,330)	(131,534)	-	-
Total - General Fund	(64,746,536)	57,421,247	(64,746,536)	57,421,247	-	-
Debt Service	(36,464,747)	74,495,040	(36,464,747)	74,495,040	-	-
Total - Special Transportation Fund	(36,464,747)	74,495,040	(36,464,747)	74,495,040	-	-

Background

Debt service reflects the state's obligation to make payments on services and goods provided in previous years. In FY 26, over 90% of the projected baseline debt service payment is to repay bonds that were issued prior to FY 25. Market conditions changed considerably from 2021 to 2023, including rising interest rates that have been partially offset by improvements in the State's credit rating decreases in General Obligation bond issuance.

Bond spending in previous years relates to debt service payments in the current biennium, as payments are made on issued bonds. General Fund-backed bond spending increased from \$1.5 billion in FY 13 to a peak of \$2.4 billion in FY 16. Spending has since declined to under \$1.3 billion in FY 23, before increasing to over \$1.6 billion in FY 24.

With an extension of the UConn 2000 program during the 2024 session, UConn 2000 debt service is expected to plateau at around \$230 million between FYs 29-30. The program includes new bond authorizations annually through FY 31.

The municipal restructuring debt service changes reflect the contractually adopted debt repayment schedule, which peaked at \$56.3 million in FY 21. After an uptick from FY 26 to FY 27, annual payments decline through the rest of the contract period (FY 36).

In Fall 2008, \$2.3 billion of Pension Obligation Bonds (POBs) were issued to provide an influx of funding to the Teachers Retirement Fund. The bonds were issued with a back-loaded debt service repayment schedule - over the first 15 years of repayment (FY 09 through FY 23), the state paid less than \$1.9 billion towards the bonds (\$133 million annual average), while the debt service schedule over the last nine years of the contract (FY 24 through FY 32) anticipates \$2.9 billion of payments remaining (\$322 million annual average). That original repayment schedule includes a decrease from \$331 million in FY 25 to \$268.5 million in FY 26. Payments increase annually between \$15 to \$21 million starting in FY 27.

Transportation debt service reflects the ramp up of Special Tax Obligation (STO) bond issuance from an annual average of approximately \$350 million from FY 06 through FY 12 to approximately \$710 million from FY 13 through FY 22. Current service estimates for STF debt assume a ramp up of STO bond issuances from \$1 billion FY 25 to \$1.3 billion in FY 26 and \$1.4 billion annually thereafter. Increased STO issuance and increasing interest rates both contribute to rising debt service repayment requirements.

Governor

Adjust funding in FY 26 and FY 26 to reflect debt repayment schedule, based on prior and projected bond spending.

Legislative

Same as Governor

Totals

Budget Components	Governor Recommended		Legislative		Difference from Governor	
	FY 26	FY 27	FY 26	FY 27	FY 26	FY 27
FY 25 Appropriation - GF	2,594,372,994	2,594,372,994	2,594,372,994	2,594,372,994	-	-
Policy Revisions	(20,000,000)	(60,000,000)	(20,000,000)	(60,000,000)	-	-
Current Services	(64,746,536)	57,421,247	(64,746,536)	57,421,247	-	-
Total Recommended - GF	2,509,626,458	2,591,794,241	2,509,626,458	2,591,794,241	-	-
FY 25 Appropriation - TF	951,115,534	951,115,534	951,115,534	951,115,534	-	-
Current Services	(36,464,747)	74,495,040	(36,464,747)	74,495,040	-	-
Total Recommended - TF	914,650,787	1,025,610,574	914,650,787	1,025,610,574	-	-