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State of Connecticut
Office of the Treasurer

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TO: Timothy O'Brien
Department of Administrative Services

FROM: Sarah K. Sanders *SKS*
Assistant Treasurer for Debt Management

DATE: June 13, 2014

SUBJECT: Connecticut School Construction Program

It was a pleasure to speak with you recently about the State of Connecticut School Construction Program.

You have asked, "How much does the State's school construction program cost the State in debt service?" While a simple question, the answer is somewhat complicated. The reason is that when we issue General Obligation bonds, we issue them with level annual principal payments from one to twenty years. We usually attribute the longer maturities to the school construction program for accounting purposes because the projects have long, useful lives and also because the projects are "clean" from a tax perspective to refinance at a later date.

This fact can distort the portion of debt service attributable to school construction. If we look at total GO bonds outstanding, school construction accounts for an unusually high percentage because we pay them off slower than other programs. If you look at debt service for the current year, it is an unusually low percentage attributable to school construction because principal is deferred and only interest is being paid. And finally, if you look at debt service on refunding bonds, school construction is an unusually high percentage due to that purpose being allocated to the longer maturities which are commonly refinanced.

Therefore, in answering your question, we think the best way is to review how many GO bonds have been issued for school construction purposes in the recent past and apply that percentage to debt service.

On average, over the last 15 years, school construction has accounted for 46.3% of all GO bonds issued for capital purposes. For the most recent ten years, the percentage is 51.2%. So, generally, half of the GO bonds issued have been for school construction. The debt service on all GO bonds issued for capital purposes for fiscal year 2014, including refunding bonds, is

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estimated at \$1.405 billion. Therefore, you could say the debt service on bonds issued for school construction accounts for approximately \$700 million of the total debt service budget. (Please note that these figures exclude other GO bonds such as POB, ERNs, GAAP bonds, etc.)

I believe the current method of financing of the State's school construction program has been very efficient and low cost. I am very happy to discuss the program with you further.

Please let me know if you have any questions or concerns.

Enclosure

**State of Connecticut
Office of the Treasurer
General Obligation Debt Issuance
(in Millions)**

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	Total	15 Year Average	10 Year Average
Total GO *	\$845	\$980	\$1,234	\$1,274	\$1,000	\$980	\$1,025	\$1,135	\$1,135	\$1,135	\$1,105	\$1,200	\$1,105	\$1,300	\$1,300	\$16,753	\$1,117	\$1,142
School Construction	\$505	\$61	\$448	\$444	\$416	\$597	\$655	\$820	\$804	\$567	\$759	\$330	\$542	\$469	\$337	\$7,754	\$517	\$588
% School Construction	59.8%	6.2%	36.3%	34.9%	41.6%	60.9%	63.9%	72.2%	70.8%	50.0%	68.7%	27.5%	49.1%	36.1%	25.9%	46.3%	46.3%	51.5%

* Total does not include refunding issues or BANS

	(\$ Millions)
<u>2014 Debt Service</u>	
General Obligation Bonds For Capital Refunding Bonds	\$ 917
Total	\$ 488
Estimated Portion Allocable to School Construction	\$ 1,405
Estimated School Construction Debt Service FY 2014	50.0%
	\$ 703