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SUBMITTED TO THE APPROPRIATIONS COMMITTEE
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Good morning, Senator Bye, Representative Walker, and all of the members of the Appropriations Committee. Thank you for the opportunity to submit testimony concerning House Bill 5043, An Act Concerning Certain Deficiency Appropriations for the Fiscal Year Ending June 30, 2016.

State Treasurer Denise L. Nappier asked me to appear here today on her behalf. You will recall she appeared before this Committee just about a month ago on February 16 to share her views on the General Fund debt service budget.

Our office supports the $35 million deficiency appropriation for General Fund Debt Service contained in House Bill 5043. Our current estimates are actually $41 million higher than the current adopted General Fund debt service budget for fiscal year 2016. However, we have three and a half months to go and we think the $35 million adjustment should be sufficient and we will be able to make up the additional savings before the end of the fiscal year, although we expect it will be very tight.

The Treasurer did warn last year that the General Fund debt service budget that passed would prove to be inadequate mostly because it overestimated the benefit of bond premiums. Bond premiums did come in pretty much as we expected, but lower than the adopted budget.

I must say this $35 million deficiency would be larger had we not enjoyed the benefits of an unexpected continuation of very low short-term interest rates caused by delayed rate action by the Federal Reserve Bank over the last year. These continued low interest rates resulted in interest rate savings on new bond issues as well as savings on our variable rate bond portfolio.

Of course, while continued low interest rates benefit the General Fund debt service budget significantly, they are also a sign of a slow economic recovery, which creates revenue and other budget challenges for the State, as you know all too well.

The Federal Reserve Bank comments from their meeting this week did change market expectations that there will be only two fed rate increases this year, rather than the four previously predicted. But let us not lose sight that, although slowed, the direction of interest rates is still up, and all forecasts show this trend. In addition, changes in the economy could further change the fed’s perspective in ways that we can’t predict here today.

The Treasurer previously testified before this committee regarding the fiscal year 2017 mid-term budget adjustments for General Fund debt service and she supported the Governor's proposed $10 million recommended increase.

However, she did warn that an additional adjustment would be needed and failure to do so may result in the need for a deficiency bill to fund debt service next year, as is now required for the current fiscal year. She recommended this Committee confer with its own Office of Fiscal Analysis on the need for an adjustment. We understand their last estimate was an adjustment in the range of $50 million is required. Our number is in the range of $67 million; it did benefit from a bond sale this week.

Thank you for the opportunity to offer input on this bill. I would be happy to take any questions that you have.