New York State Comptroller
THOMAS P. DiNAPOLI

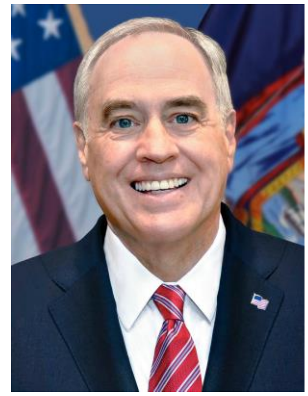
The Importance of Responsible Debt Management

Poor State Bond Structuring Choices Lead to Greater Costs for Taxpayers

March 2024

Message from the Comptroller

March 2024



Like many states, New York borrows to finance many of its capital projects, including those to build and improve roads, bridges, parks and buildings. This type of borrowing is appropriate because current and future users share in the cost of an asset from which they benefit. However, while there are long-standing norms about the best ways to structure such borrowing, municipal governments and public authorities have latitude to make bond structuring decisions, and these decisions can have significant long-term fiscal impacts.

In the throes of the economic uncertainty and fiscal turbulence caused by the COVID crisis, legislation was enacted as part of the SFY 2021-22 budget authorizing the use of State-supported bonding with final maturities up to 50 years for capital purposes for the Metropolitan Transportation Authority (MTA). This legislation has been reauthorized annually despite the State's much improved and stabilized fiscal condition, and has been proposed again in the State Fiscal Year (SFY) 2024-25 Executive Budget. The State has conducted three borrowings under this authorization in a manner that diverges from long-standing State debt financing norms and trades marginal short-term budget relief for greatly increased outyear costs. To date, the result has been nearly $1.2 billion in increased costs, while providing financial plan relief of less than $78 million. These results are particularly troublesome when considering the broader context of the State's high debt burdens. As we approach the State's coming 2024-25 fiscal year, the budget proposal authorizing such 50-year borrowing should be rejected, and the State should return to long-standing bond financing norms.

These three borrowings for the MTA were completed as competitive deals, which do not require review by the Comptroller's Office. My Office plays an important role in guarding against poor bond structuring decisions through the Comptroller's approval of the terms and conditions of private or negotiated bond sales by public authorities. The SFY 2024-25 Executive Budget also includes a proposal to severely restrict the State Comptroller's terms and conditions oversight of private sales of State debt, which should be rejected.

Thomas P. DiNapoli
State Comptroller

Why Is Bond Structuring Important?

Many public entities in New York use debt to finance major capital projects. The use of debt is appropriate for infrastructure and other capital assets; since these assets are expected to serve the public for a long time, it is fair for future users to pay part of the cost of the project. This concept is referred to as generational equity, and is usually achieved by equitably spreading the repayment of annual debt service costs (principal and interest payments) over a time frame associated with the asset's useful life. Level or declining debt service is a long-standing bond financing norm and the default practice for most bond issuers in the municipal market.

Various laws, policies and guidelines enshrine best practices for structuring bonds to ensure generational equity. These statutory and other safeguards are important because the structuring of each new borrowing can have a significant impact on the annual and cumulative costs of repaying such debt. Over time, the costs from each new borrowing creates a cumulatively layered impact, typically increasing the annual costs for repaying such debt and the proportion of the issuer's annual budget priorities that are consumed by fixed costs.

Even when utilizing level debt service, a good deal of discretion and flexibility is afforded through other structuring considerations that can have significant impacts on the overall costs to taxpayers. These include:

- Timing: When the bond will be repaid, or its final maturity; the use of short-term and long-term maturities; and how debt service is amortized during that term.
- Purpose: Bonds can be issued to fund a new capital work or purpose or refinance existing bonds, or both.
- Taxability: Governmental entities benefit from the use of tax-exempt debt for their capital assets, which typically allows them to provide a lower interest rate than taxable debt. Nevertheless, governmental entities also employ taxable debt, often in combination with tax-exempt debt. Taxable bonds can be used to finance the portion of assets that have private use considerations, where non-governmental purposes may be included.
- Interest Rate: Can be fixed or variable. Governments can also use more sophisticated instruments, such as interest rate swaps.

Effective bond structures produce the lowest borrowing cost reasonably possible under market conditions at the time of issuance, reducing the burden of repayment over the life of such debt. To illustrate how structuring decisions can result in real differences for taxpayers, Figure 1 below shows how cost savings can be generated when bond structuring choices are implemented responsibly and effectively. In this example of a 30-year borrowing, both taxable and tax-exempt bonds are used to generate roughly $550 million for capital projects. In the first example, both taxable and tax-exempt bonds are paid off throughout the 30-year period creating a level debt service repayment schedule. In the second scenario, the higher-cost taxable bonds are front-loaded into the earliest bond maturities – meaning they are paid off first – and the lower-cost tax-exempt bonds have the longer maturities. Optimizing the structure as in scenario B produces a lower cost of borrowing, saving the issuer nearly $16 million throughout the life of the debt.

Figure 1
Two Scenarios Illustrating Bond Structure Optimization
(Thousands of Dollars)

	Scenario A			Scenario B			
	30-Year Level DS - Both TX and TE			Optimized Structure: 30-Year Level DS - Short TX & Long TE			
FY End	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Savings
2024	$0	$27,094	$27,094	$0	$26,708	$26,708	($385)
2025	8,520	27,948	36,468	8,390	27,550	35,940	(528)
2026	8,950	27,517	36,467	8,840	27,100	35,940	(527)
2027	9,400	27,066	36,466	9,305	26,634	35,939	(526)
2028	9,880	26,591	36,471	9,800	26,140	35,940	(531)
2029	10,380	26,092	36,472	10,320	25,618	35,938	(534)
2030	10,905	25,565	36,470	10,885	25,053	35,938	(532)
2031	11,455	25,011	36,466	11,485	24,453	35,938	(528)
2032	12,045	24,427	36,472	12,130	23,807	35,937	(535)
2033	12,660	23,812	36,472	12,820	23,121	35,941	(531)
2034	13,305	23,165	36,470	13,545	22,393	35,938	(531)
2035	13,985	22,483	36,468	14,220	21,716	35,936	(532)
2036	14,705	21,764	36,469	14,935	21,005	35,940	(529)
2037	15,465	21,006	36,471	15,680	20,258	35,938	(533)
2038	16,260	20,209	36,469	16,465	19,474	35,939	(529)
2039	17,100	19,369	36,469	17,285	18,651	35,936	(533)
2040	17,985	18,485	36,470	18,150	17,787	35,937	(533)
2041	18,915	17,555	36,470	19,060	16,879	35,939	(531)
2042	19,895	16,577	36,472	20,010	15,926	35,936	(536)
2043	20,920	15,548	36,468	21,010	14,926	35,936	(532)
2044	22,005	14,465	36,470	22,065	13,875	35,940	(530)
2045	23,140	13,326	36,466	23,165	12,772	35,937	(529)
2046	24,340	12,128	36,468	24,325	11,614	35,939	(530)
2047	25,605	10,868	36,473	25,540	10,398	35,938	(535)
2048	26,930	9,541	36,471	26,820	9,121	35,941	(531)
2049	28,325	8,146	36,471	28,160	7,780	35,940	(532)
2050	29,795	6,678	36,473	29,565	6,372	35,937	(537)
2051	31,335	5,133	36,468	31,045	4,893	35,938	(530)
2052	32,960	3,509	36,469	32,595	3,341	35,936	(533)
2053	34,670	1,799	36,469	34,225	1,711	35,936	(533)
Total	$541,835	$542,875	$1,084,710	$541,840	$527,076	$1,068,916	($15,794)

= Both Taxable and Tax-Exempt Bonds
= Taxable Bonds Only
= Tax-Exempt Bonds Only

Responsible bond structuring reflects sound budget management, ensuring that costs remain reasonable in the short- and long-term. Municipal bond structures can also be used less prudently to provide short-sighted budget relief while increasing long-term costs, particularly to future generations of taxpayers. Examples include so-called “scoop and toss” refunding approaches that prolong the repayment of debt, “wrap” structures to delay repayment of principal, and the use of “bullet” maturities that schedule total repayment at the end of the maturity, which can all provide near-term budget relief while increasing total costs relative to other alternative structures.[1] This is especially the case when the repayment of bonds is extended over a greater period of time, which both requires higher interest rates for longer-maturity bonds and increases the amount of time during which interest costs must be repaid.

Budget Legislation Undercuts Debt Reform Act

The Debt Reform Act of 2000 (State Finance Law, Article 5-B) precludes the issuance of State-supported debt with a final maturity of more than 30 years.[2] Longer-term debt is perceived by investors to be riskier, and typically requires a higher interest rate, making the borrowing relatively more costly. In the wake of the fiscal crisis brought about by the onset of the COVID-19 pandemic, an exception to this limitation was first authorized in legislation enacted as part of the State Fiscal Year 2021-22 Budget. This allowed, for that fiscal year, the issuance of State-supported debt for the purposes of financing transportation facilities of the MTA with final maturities of up to 50 years. However, this authorization has been extended annually in each ensuing State budget. The Governor's SFY 2024-25 Executive Budget once again proposes extending this authorization for one additional year in the Public Protection and General Government Article VII bill (A.8805 / S.8305), Part X, section 56.[3]

The initial authorization of this legislation was spurred by COVID's grim early impacts on the MTA's ridership and finances, which hampered the MTA's ability to issue its own debt in the bond market for a time. Prior to COVID, State support for the MTA's capital plan was to include State assistance payments that would indirectly support a portion of MTA's borrowings. With the expectation of State support for the MTA's capital program and the MTA's borrowing plans hindered by the impacts of COVID, the budget legislation allowed the State to step in and substitute its Personal Income Tax (PIT) or Sales Tax (ST)-backed revenue bonds for a portion of MTA's own borrowing plans. The extended maturities were authorized to correspond to that which the MTA had expected to issue on its own. State PIT and ST revenue bonds are issued by the NYS Thruway Authority, Empire State Development (ESD) and the Dormitory Authority of the State of NY (DASNY), with debt service repaid by the State.

Municipal bonds with maturities beyond 30 years are rare in the bond market: in fact, the Municipal Market Data (MMD) bond index – the bond market's industry benchmark for measuring interest costs – does not go beyond 30 years. Federal treasury bonds, backed by the full faith and credit of the United States government, also do not go beyond 30 years.

State Issuances for MTA Result in Significantly Higher Costs

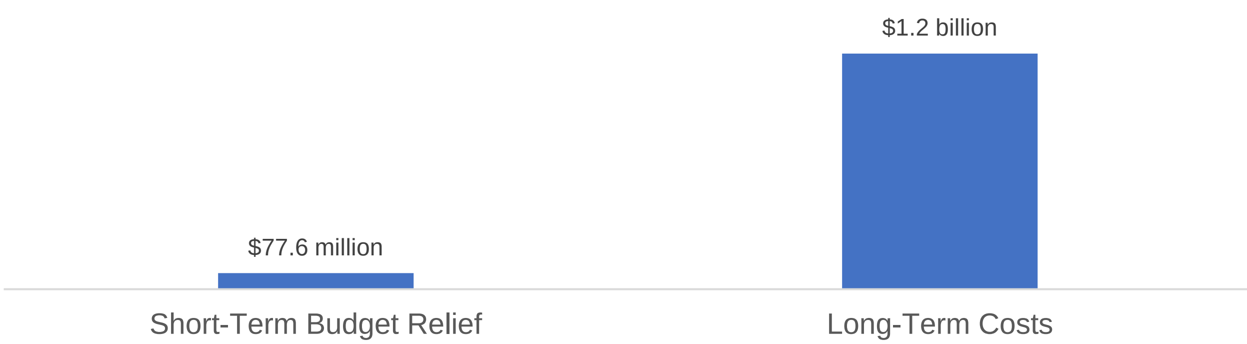
The fiscal impacts of allowing maturities of up to 50 years for MTA purposes are considerable. While providing some marginal short-term budget relief in the early years, it has drastically increased total long-term costs. This results from both higher interest costs from longer-maturity bonds and paying interest on such bonds over a significantly extended period of time.

Since the legislation's original adoption in the State's 2021-22 fiscal year and subsequent annual extensions, State-supported debt has financed about $6 billion for MTA transportation purposes. These debt issuances have each been issued under the State's PIT Revenue Bond credit, with repayment by the State subject to annual appropriation. Much has been issued in a responsible manner, consistent with long-standing bond structuring norms for State debt and the Debt Reform Act's 30-year maturity limit. However, over $1.7 billion of the total $6 billion for MTA projects have been financed with maturities longer than 30 years.

Even worse is the manner in which the annual budget legislation exempting the MTA has been deployed in these cases. Each issue has "backloaded" the principal borrowed for these MTA purposes into extended years. These bond amounts are "wrapped" to follow behind the repayment of debt for other State capital purposes with the typical 30-year level debt service structure.[4] In addition to diverging from long-standing bond structuring norms and creating higher costs, this also moves away from the concept of generational equity by making future taxpayers shoulder an unequal and outsized portion of financing these project costs. This Office has previously reported on similar "backloading" debt practices by the MTA itself.[5]

To date, the short-term budget "relief" from these measures – typically measured over each annual budget's four-year financial plan horizon – has been less than $78 million. In contrast, these same poor bond structuring choices have increased total State costs over the life of the debt by nearly $1.2 billion as compared to a traditional bond structure with level debt service. (See Appendix for detailed comparisons.)

Figure 2
Actual "Backloaded" Bond Structures Compared to 30-Year Level Debt Service



Source: Actual bond sale results and Office of the State Comptroller estimates.

Since 2020, the State's finances have experienced a dramatic turnaround. Strong State cash positions in recent years have permitted the State to take positive debt actions, including $9 billion of additional pay-as-you-go funding and debt service prepayments and defeasances in each year since the budget legislation was originally enacted, totaling nearly $17 billion. These strategies prudently reduce future debt costs, and greatly contrast with the State's use of "backloaded" and extended maturities, which have added substantial long-term fixed costs.

Considering the magnitude of the available pay-as-you-go funding and the flexibility in how it can be deployed, some very small portion of either the pay-as-you-go funding or prepayment actions could be utilized to end these costly bond structures by creating alternative debt-related relief during the four-year financial plan horizon.

Each of the three State PIT bond issues discussed above were sold by competitive sale, meaning they were *not* subject to review and approval by the Office of the State Comptroller.[6]

Conclusion

In the context of the post-COVID economic recovery, much has been done to bolster the State's finances, including considerable increases to State reserve fund levels. This commendable focus on prioritizing a longer-term outlook for the State's fiscal health should not disregard its bond financing practices.

Maturities of up to 50 years should not be considered a "new norm." The SFY 2024-25 Executive Budget's proposal to further authorize the use of bond maturities up to 50 years for MTA transportation facilities should be rejected, allowing it to finally sunset at the end of the current fiscal year. This will revert all State borrowings to the 30-year final maturity limitation otherwise embodied in the Debt Reform Act. The State should also prioritize a return to long-standing bond financing norms, including the use of level debt service structures. The deployment of bond structures with "backloaded" and extended principal amortization schedules, such as done for these MTA capital expenses, has been very costly.

As noted in this Office's Report on the SFY 2024-25 Executive Budget, the troubling new proposal to restrict the State Comptroller's ability to review and approve negotiated State PIT and Sales Tax bond issues should be rejected.[7] Reduced oversight by the State Comptroller would eliminate guardrails for debt issued through negotiated sales, and potentially lead to higher costs for taxpayers. This would also create a dangerous legislative precedent, likely to be sought by other public authority bond issuers.

Appendix A

Analysis of Costs of Backloaded and Extended Maturities

2021 - NYS Thruway Authority PIT Revenue Bonds, Series 2021A-1
(Dollars in Thousands)

	Actual - Deferred Principal & 38-Year Maturity			Level DS - 30-Year Final Maturity				
FY End	Principal	Interest	Debt Service	Principal	Interest	Debt Service	(Savings) / Cost	
2022		$15,661	$15,661		$15,867	$15,867	($206)	
2023		24,837	24,837	10,495	25,164	35,659	(10,822)	Short-term Budget
2024		24,837	24,837	11,020	24,639	35,659	(10,822)	Relief ($32.7m)
2025		24,837	24,837	11,570	24,088	35,658	(10,821)	
2026		24,837	24,837	12,150	23,509	35,659	(10,822)	
2027		24,837	24,837	12,755	22,902	35,657	(10,820)	
2028		24,837	24,837	13,395	22,264	35,659	(10,822)	
2029		24,837	24,837	14,060	21,594	35,654	(10,817)	
2030		24,837	24,837	14,765	20,891	35,656	(10,819)	
2031		24,837	24,837	15,505	20,153	35,658	(10,821)	
2032		24,837	24,837	16,280	19,378	35,658	(10,821)	
2033		24,837	24,837	17,095	18,564	35,659	(10,822)	
2034		24,837	24,837	17,950	17,709	35,659	(10,822)	
2035		24,837	24,837	18,845	16,812	35,657	(10,820)	
2036		24,837	24,837	19,790	15,869	35,659	(10,822)	
2037		24,837	24,837	20,580	15,078	35,658	(10,821)	
2038		24,837	24,837	21,400	14,255	35,655	(10,817)	
2039		24,837	24,837	22,260	13,399	35,659	(10,821)	
2040		24,837	24,837	23,150	12,508	35,658	(10,821)	
2041		24,837	24,837	24,075	11,582	35,657	(10,820)	
2042		24,837	24,837	25,040	10,619	35,659	(10,822)	
2043		24,837	24,837	26,040	9,618	35,658	(10,820)	
2044		24,837	24,837	27,080	8,576	35,656	(10,819)	
2045		24,837	24,837	28,165	7,493	35,658	(10,821)	
2046		24,837	24,837	29,290	6,366	35,656	(10,819)	
2047		24,837	24,837	30,460	5,195	35,655	(10,817)	
2048		24,837	24,837	31,680	3,976	35,656	(10,819)	
2049		24,837	24,837	32,630	3,026	35,656	(10,819)	
2050		24,837	24,837	33,610	2,047	35,657	(10,820)	
2051	48,965	24,837	73,802	34,620	1,039	35,659	38,144	
2052	63,400	23,368	86,768				86,768	
2053	65,940	20,832	86,772				86,772	
2054	68,575	18,195	86,770				86,770	
2055	71,320	15,452	86,772				86,772	
2056	74,170	12,599	86,769				86,769	
2057	77,140	9,632	86,772				86,772	
2058	80,225	6,546	86,771				86,771	
2059	83,435	3,337	86,772				86,772	Total
Total	$633,170	$845,900	$1,479,070	$615,755	$434,179	$1,049,934	$429,136	Increased Costs

Notes: Deferred principal reflects actual results from the Thruway Authority's Series 2021A-1 bond issue. Level debt service reflects OSC estimate of financing the same costs with a 30-year level debt service bond structure, utilizing the actual interest rates, yields and other bond terms and conditions from bonds issued at the same time. Short-term budget relief reflects the typical measurement used for each annual budget cycle's four-year financial plan.

2022 - NYS Thruway Authority PIT Revenue Bonds, Series 2022C
(Dollars in Thousands)

	Actual - Deferred Principal & 35-Year Maturity			Level DS - 30-Year Final Maturity			
FY End	Principal	Interest	Debt Service	Principal	Interest	Debt Service	(Savings) / Cost
2023		$21,453	$21,453	$6,890	$20,771	$27,661	($6,208)
2024		34,023	34,023	11,275	32,596	43,871	(9,848)
2025		34,023	34,023	11,840	32,032	43,872	(9,849)
2026		34,023	34,023	12,430	31,440	43,870	(9,847)
2027		34,023	34,023	13,050	30,819	43,869	(9,846)
2028		34,023	34,023	13,705	30,166	43,871	(9,848)
2029		34,023	34,023	14,390	29,481	43,871	(9,848)
2030		34,023	34,023	15,110	28,762	43,872	(9,849)
2031		34,023	34,023	15,865	28,006	43,871	(9,848)
2032		34,023	34,023	16,660	27,213	43,873	(9,850)
2033		34,023	34,023	17,490	26,380	43,870	(9,847)
2034		34,023	34,023	18,365	25,505	43,870	(9,847)
2035		34,023	34,023	19,285	24,587	43,872	(9,849)
2036		34,023	34,023	20,245	23,623	43,868	(9,845)
2037		34,023	34,023	21,260	22,611	43,871	(9,848)
2038		34,023	34,023	22,325	21,548	43,873	(9,850)
2039		34,023	34,023	23,440	20,431	43,871	(9,848)
2040		34,023	34,023	24,610	19,259	43,869	(9,846)
2041		34,023	34,023	25,840	18,029	43,869	(9,846)
2042		34,023	34,023	27,135	16,737	43,872	(9,849)
2043		34,023	34,023	28,490	15,380	43,870	(9,847)
2044		34,023	34,023	29,630	14,241	43,871	(9,848)
2045		34,023	34,023	30,815	13,055	43,870	(9,847)
2046		34,023	34,023	32,355	11,515	43,870	(9,847)
2047		34,023	34,023	33,975	9,897	43,872	(9,849)
2048		34,023	34,023	35,670	8,198	43,868	(9,845)
2049		34,023	34,023	37,455	6,415	43,870	(9,847)
2050		34,023	34,023	38,955	4,916	43,871	(9,848)
2051		34,023	34,023	40,510	3,358	43,868	(9,845)
2052	40,795	34,023	74,818	42,130	1,738	43,868	30,950
2053	125,380	31,983	157,363				157,363
2054	131,645	25,714	157,359				157,359
2055	138,225	19,132	157,357				157,357
2056	145,135	12,221	157,356				157,356
2057	151,125	6,234	157,359				157,359
Total	$732,305	$1,103,404	$1,835,709	$701,195	$598,712	$1,299,907	$535,802

Short-term Budget Relief ($35.8m)

Total Increased Costs

Notes: Deferred principal reflects actual results from the Thruway Authority's Series 2022C bond issue. Level debt service reflects OSC estimate of financing the same costs with a 30-year level debt service bond structure, utilizing the actual interest rates, yields and other bond terms and conditions from bonds issued at the same time. Short-term budget relief reflects the typical measurement used for each annual budget cycle’s four-year financial plan.

2023 - Empire State Development PIT Revenue Bonds, Series 2023A
(Dollars in Thousands)

	Actual - 40-Year Maturity			Level DS - 30-Year Final Maturity				
FY End	Principal	Interest	Debt Service	Principal	Interest	Debt Service	(Savings) / Cost	
2024		$2,822	$2,822		$2,647	$2,647	$175	
2025		12,094	12,094	3,880	11,344	15,224	(3,130)	Short-term Budget Relief ($9.2m)
2026		12,094	12,094	4,075	11,150	15,225	(3,131)	
2027		12,094	12,094	4,280	10,946	15,226	(3,132)	
2028		12,094	12,094	4,490	10,732	15,222	(3,128)	
2029		12,094	12,094	4,715	10,508	15,223	(3,128)	
2030		12,094	12,094	4,950	10,272	15,222	(3,128)	
2031		12,094	12,094	5,200	10,024	15,224	(3,130)	
2032		12,094	12,094	5,460	9,764	15,224	(3,130)	
2033		12,094	12,094	5,730	9,491	15,221	(3,127)	
2034		12,094	12,094	6,020	9,205	15,225	(3,131)	
2035		12,094	12,094	6,320	8,904	15,224	(3,130)	
2036		12,094	12,094	6,635	8,588	15,223	(3,129)	
2037		12,094	12,094	6,970	8,256	15,226	(3,132)	
2038		12,094	12,094	7,315	7,908	15,223	(3,128)	
2039		12,094	12,094	7,680	7,542	15,222	(3,128)	
2040		12,094	12,094	8,065	7,158	15,223	(3,129)	
2041		12,094	12,094	8,470	6,755	15,225	(3,130)	
2042		12,094	12,094	8,890	6,331	15,221	(3,127)	
2043		12,094	12,094	9,335	5,887	15,222	(3,127)	
2044		12,094	12,094	9,805	5,420	15,225	(3,131)	
2045		12,094	12,094	10,295	4,930	15,225	(3,130)	
2046		12,094	12,094	10,810	4,415	15,225	(3,131)	
2047		12,094	12,094	11,350	3,874	15,224	(3,130)	
2048		12,094	12,094	11,915	3,307	15,222	(3,128)	
2049		12,094	12,094	12,510	2,711	15,221	(3,127)	
2050		12,094	12,094	13,015	2,211	15,226	(3,131)	
2051		12,094	12,094	13,535	1,690	15,225	(3,131)	
2052		12,094	12,094	14,075	1,149	15,224	(3,129)	
2053		12,094	12,094	14,640	586	15,226	(3,131)	
2054	19,230	12,094	31,324				31,324	
2055	20,195	11,133	31,328				31,328	
2056	21,200	10,123	31,323				31,323	
2057	22,260	9,063	31,323				31,323	
2058	23,375	7,950	31,325				31,325	
2059	24,545	6,781	31,326				31,326	
2060	25,770	5,554	31,324				31,324	
2061	27,060	4,266	31,326				31,326	
2062	28,415	2,913	31,328				31,328	
2063	29,835	1,492	31,327				31,327	
Total	$241,885	$424,923	$666,808	$240,430	$203,699	$444,129	$222,679	Total Increased Costs

Notes: Deferred principal reflects actual results from ESD's Series 2023A bond issue with maturities greater than 30 years. Level debt service reflects OSC estimate of financing the same costs with a 30-year level debt service bond structure, utilizing the actual interest rates, yields and other bond terms and conditions from bonds issued at the same time. Short-term budget relief reflects the typical measurement used for each annual budget cycle's four-year financial plan.

Appendix B

Section 1

SFY 2024-25 Executive Budget, Public Protection and General Government Article VII bill (A.8805 / S.8305), Part X, section 56.

§ 56. Subdivision 1 of section 386-a of the public authorities law, as amended by section 54 of part PP of chapter 56 of the laws of 2023, is amended to read as follows:

1. Notwithstanding any other provision of law to the contrary, the authority, the dormitory authority and the urban development corporation are hereby authorized to issue bonds or notes in one or more series for the purpose of assisting the metropolitan transportation authority in the financing of transportation facilities as defined in subdivision seventeen of section twelve hundred sixty-one of this chapter or other capital projects. The aggregate principal amount of bonds authorized to be issued pursuant to this section shall not exceed twelve billion five hundred fifteen million eight hundred fifty-six thousand dollars $12,515,856,000, excluding bonds issued to fund one or more debt service reserve funds, to pay costs of issuance of such bonds, and to refund or otherwise repay such bonds or notes previously issued. Such bonds and notes of the authority, the dormitory authority and the urban development corporation shall not be a debt of the state, and the state shall not be liable thereon, nor shall they be payable out of any funds other than those appropriated by the state to the authority, the dormitory authority and the urban development corporation for principal, interest, and related expenses pursuant to a service contract and such bonds and notes shall contain on the face thereof a statement to such effect. Except for purposes of complying with the internal revenue code, any interest income earned on bond proceeds shall only be used to pay debt service on such bonds. Notwithstanding any other provision of law to the contrary, including the limitations contained in subdivision four of section sixty-seven-b of the state finance law, (A) any bonds and notes issued prior to April first, two thousand [twenty-four] twenty-five pursuant to this section may be issued with a maximum maturity of fifty years, and (B) any bonds issued to refund such bonds and notes may be issued with a maximum maturity of fifty years from the respective date of original issuance of such bonds and notes.

Section 2

SFY 2024-25 Executive Budget, Public Protection and General Government Article VII bill (A.8805 / S.8305), Part X, sections 49 and 50.

§ 49. Paragraph (g) of subdivision 1 of section 68-b of the state finance law, as added by section 2 of part I of chapter 383 of the laws of 2001, is amended to read as follows:

(g) Revenue bonds authorized hereunder shall be sold by authorized issuers, at public or private sale, at such price or prices as the authorized issuers may determine. Revenue bonds of the authorized issuers shall not be sold by the authorized issuers at private sales unless such sale and the terms thereof have been approved by the state comptroller. The approval of the private sale of such bonds and the terms thereof by the state comptroller shall be limited to a review of (i) the reasonableness of: (1) the bond pricing, taking into account current interest rates; (2) the costs of issuance and underwriters discount for such bonds; (3) if the sale includes refunding bonds, cash flow savings and net present value savings; and (4) if the sale involves an interest rate exchange or similar agreement, the economic terms of such agreement; and (ii) whether the final maturity of the bonds complies with (1) the legal authorization for the project or projects being financed, and (2) the parameters established in the authorized issuer's resolution authorizing the issuance of such bonds, as approved by the public authorities control board pursuant to section fifty-one of the public authorities law.

§ 50. Paragraph (g) of subdivision 1 of section 69-n of the state finance law, as added by section 58 of part HH of chapter 57 of the laws of 2013, is amended to read as follows:

(g) Revenue bonds authorized hereunder shall be sold by authorized issuers, at public or private sale, at such price or prices as the authorized issuers may determine. Revenue bonds of the authorized issuers shall not be sold by the authorized issuers at private sales unless such sale and the terms thereof have been approved by the state comptroller. The approval of the private sale of such bonds and the terms thereof by the state comptroller shall be limited to a review of (i) the reasonableness of: (1) the bond pricing, taking into account current interest rates; (2) the costs of issuance and underwriters discount for such bonds; (3) if the sale includes refunding bonds, cash flow savings and net present value savings; and (4) if the sale involves an interest rate exchange or similar agreement, the economic terms of such agreement; and (ii) whether the final maturity of the bonds complies with (1) the legal authorization for the project or projects being financed, and (2) the parameters established in the authorized issuer's resolution authorizing the issuance of such bonds, as approved by the public authorities control board pursuant to section fifty-one of the public authorities law.

Endnotes

[1] "Scoop and toss" refundings typically restructure existing bonds maturing over a shorter-term horizon to defer their repayment into much later years. "Wrap" bond structures typically defer the repayment of a new bond issue into future years, layering it upon an existing debt structure that may decline over time. "Bullet" maturity bonds typically defer any repayment of principal until a single long-term date at final maturity.

[2] State-supported debt includes both voter-approved, full faith and credit State General Obligation debt as well as "backdoor borrowings" by public authorities, where the State is contractually obligated to repay debt service, subject to appropriation.

[3] Public Protection and General Government Article VII bill (A.8805 / S.8305), Part X, section 56. See Appendix B, section 1.

[4] The 2023 issuance was structured differently - with an overall level debt service approach for MTA purposes, although with the longest final maturity to date of 40 years. For comparability, this analysis only considers those 2023 bonds issued beyond 30 years.

[5] Most recently: Office of the State Comptroller, "Annual Update: Metropolitan Transportation Authority's Debt Profile", May 2023.

[6] The 2023 borrowing was initially to be issued by DASNY and came before the Public Authorities Control Board (PACB) for approval in May 2023. While the Comptroller is not a board member of the PACB, by statute the Comptroller reviews and comments on applications to PACB. In a letter dated May 17, 2023, the Office of the State Comptroller provided comments to PACB on the proposed DASNY bond issue's intended use of bonds for MTA purposes with a final maturity up to 50 years, noting the increased interest costs they would require and urging a return to more prudent debt practices. As a negotiated sale, the DASNY issuance was subject to the Comptroller's terms and conditions approval. The Office of the State Comptroller objected to the bond structure for MTA purposes, and this component was withdrawn from the DASNY issuance before going to market. It was subsequently reintroduced as part of the ESD PIT bond application that came before the PACB in November 2023. In a letter dated November 15, 2023, the Office of the State Comptroller once again provided comment indicating its concerns to the PACB. The ESD bond issuance was ultimately conducted in December 2023 as a competitive sale, which did not require the State Comptroller's approval.

[7] Public Protection and General Government Article VII bill (A.8805 / S.8305), Part X, sections 49 and 50. See Appendix B, section 2.

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