The issue: Buying back state Capitol buildings


Who said it: Arizona House Democrats

by Alex Ferri - January 24, 2012, 3:04 pm

What we're looking at
Arizona House Democrats claimed that taxpayers will have to pay $1.6 billion to buy back state buildings sold in a leaseback agreement to Wall Street banks in 2010.

The comment
"Tea party legislators and Gov. Jan Brewer have ... sold state Capitol buildings to big Wall Street banks. Taxpayers will have to spend $1.6 billion to lease and buy those buildings back with interest from those Wall Street banks."

The forum
A news release posted Jan. 9 on the Arizona House Democrats’ website.

Analysis
The state sold $1 billion of bonds with guaranteed interest to various investors in 2010, according to the Joint Legislative Budget Committee. Twenty-two state buildings were used as collateral in order to get a lower interest rate on the payments, said Clark Partridge, the state's comptroller.

Faced with budget shortfalls, the Legislature passed the bills authorizing the sale, and Brewer signed them into law. The Republican Party dominates both chambers, and there’s a strong "tea party" contingent.

The titles to the buildings were transferred to a third party for holding. The state did not technically sell the buildings to anyone, Partridge said -- the only way the investors can exercise ownership rights is if the state defaults on its payments.

If the state comes up with enough cash to use as replacement collateral, it could regain individual titles to the buildings.
If the state makes payments until 2030, it would pay investors the principal amount of $1 billion plus $600 million of interest. This would amount to $1.6 billion, but some of that interest could be avoided by paying off the investors by 2019, Partridge said.

Brewer advocated obtaining title to the Capitol complex in her State of the State speech. Doing so would require the state to set aside about $81 million in principal plus $25 million in interest to serve as replacement collateral.

Paying off the investors by 2019 would save about $47.5 million in interest on the Capitol complex alone, Partridge said. The plan would place about $106 million in a fund to serve as collateral for investors, and this amount would earn interest.

The state would still be responsible for the $25 million in interest until 2019, Partridge said. The $47.5 million in savings would be on interest owed from 2020 through 2030.

When the bonds were initially sold, a group of investment banks bought them. According to a Department of Administration document, these banks then sold about 80 percent of the bonds to institutional investors, typically large companies, with the rest selling to individual investors.

However, because the bonds have since been traded on the open market, it’s difficult to tell exactly who owns the bonds today and therefore receives the returns.

Bottom line: If the state paid back investors over 20 years, the total payment would equal $1.6 billion — as the Democrats noted. However, there are ways the state could avoid paying all the $600 million of interest. And while Wall Street banks did participate in the initial sale, they didn’t buy all the certificates, and many different investors could own the bonds now.

Sources
Interview with Rep. Steve Urie, member of the Appropriations Committee.
Interview with Joint Legislative Budget Committee staff.
"Overview of State Debt and Lease-Purchase Financing." JLBC, Sept. 27, 2011
"Sale/Lease-Back Of State Facilities," Arizona Department of Administration, Jan 11, 2010
"Brewer’s address light on policy," The Arizona Republic, Jan. 9, 2012
Interview with state Comptroller Clark Partridge

Keyword(s): Budget, Economy, State government