NOTE 14 – GENERAL LONG-TERM OBLIGATIONS

A. Bonded Debt

General Obligation Bonded Debt

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund (a special revenue fund). No such notes were outstanding at year-end. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. No such borrowing occurred in fiscal year 1999.

Revenue Dedicated Bonded Debt

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

Revenue bonds and commercial paper notes have been issued by the Michigan Underground Storage Tank Financial Assurance Finance Authority to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). The $2.8 million of commercial paper notes outstanding are recorded as liabilities of the fund and are not included in the amounts shown in the table below. The bonds and notes are a limited obligation of the authority payable solely from dedicated revenues and do not represent a general obligation of the authority or the State.

Revenue bonds have been issued by the State Building Authority to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. Commercial paper notes have been issued to provide temporary financing for the various activities of the authority prior to bonding. The $187.1 million of commercial paper notes outstanding at year-end are recorded as liabilities in the authority's capital projects fund and are not included in the amounts shown in the tables below. Subsequent to September 30, 1999, the authority issued an additional $71.1 million of commercial paper notes. These bonds and notes are limited obligations of the authority and do not constitute general obligations of the authority or the State. The debt requirements of the bonds are financed through General Fund appropriations, excess bond proceeds, and investment earnings.

Note #15 provides disclosures regarding the bonds and notes payable recorded as liabilities of the discretely presented component units.

Bonds Issued and Outstanding

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

			MATURITIES		AVERAGE
GENERAL OBLIGATION BONDED DEBT	AMOUNTS ISSUED	OUTSTANDING 9/30/99	FIRST YEAR	LAST YEAR	INTEREST RATE PERCENTAGE
Recreation and Environmental Protection (1):					
Series 1989	$ 75.0	$ 36.0	1991	2011	6.92
Series 1992	246.3	167.8	1993	2012	6.15
College Savings Bonds - Series 1992 Mini-bonds	.5	.7	2012	2012	6.50
Series 1992 A (2)	13.9	10.8	1994	2012	6.17
Series 1993 (2)	16.7	14.1	1995	2013	5.00
Series 1995	234.3	231.5	1996	2019	5.28
Series 1998	90.0	86.3	1998	2017	4.80
School Loan Bonds:					
Series 1995	180.0	162.7	1996	2015	5.47
Series 1998	160.0	160.0	2000	2017	4.86
TOTAL GENERAL OBLIGATION BONDED DEBT	1,016.7	869.8			
REVENUE DEDICATED BONDED DEBT					
MUSTFA Related:					
Tax Dedicated Bonds:					
1996 - Revenue Bonds - Series 1	216.6	180.5	1997	2010	5.67
TOTAL REVENUE DEDICATED BONDED DEBT - MUSTFA RELATED	216.6	180.5			
Transportation Related:					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1985 (Series B Refunding)	57.8	1.6	1985	2000	8.53
Series 1992 (Series A and Series B Refunding)	165.0	150.2	1996	2022	5.96
Series 1996 (Series A Refunding)	22.7	22.5	1998	2014	5.42
Series 1998 (Series A Refunding)	38.6	38.6	2004	2010	4.66
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	21.8	1994	2017	6.97
Series 1992 (Series A and Series B Refunding)	353.2	184.6	1999	2021	6.16
Series 1994 (Series A and Series B Refunding)	241.0	49.9	1994	2007	5.53
Series 1996 (Series A)	54.5	11.9	1997	2009	5.71
Series 1998 (Series A)	377.9	377.9	2005	2026	5.09
TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED	1,446.5	859.0			
State Building Authority:					
1991 Revenue Bonds – Refunding Series I	296.0	223.7	1992	2021	6.26
1991 Revenue Bonds – Series II	197.8	149.5	1992	2021	6.26
1993 Revenue Bonds – Refunding Series I	491.5	351.7	1994	2016	4.58
1994 Series I Bonds	39.8	31.0	1995	2012	5.07
1994 Series II Bonds	29.1	24.2	1996	2011	4.62
1995 Series A Bonds	17.2	3.5	1996	2002	4.41
1996 Series I Bonds	109.9	92.2	1997	2010	5.04
1997 Series I Bonds	144.8	130.2	1997	2010	5.18
1997 Series A Bonds	34.3	30.0	1997	2006	4.76
1997 Series B Bonds	42.9	23.8	1997	2001	4.51
1997 Series II Bonds	371.9	360.3	1997	2014	5.53
1998 Series I Bonds	109.5	108.9	1998	2014	4.84
1998 Series I Bonds Refunding	330.4	330.4	1999	2021	4.75
1999 Series I	85.7	85.7	1999	2016	4.54
TOTAL STATE BUILDING AUTHORITY BONDED DEBT	2,300.8	1,945.1			
TOTAL REVENUE DEDICATED BONDED DEBT	3,963.9	2,984.6			
TOTAL GENERAL OBLIGATION AND REVENUE DEDICATED BONDED DEBT	$ 4,980.6	$ 3,854.4			

(1) Public Act 327 of 1988 and P.A. 451 of 1994 authorized the issuance of bonds totaling $800 million. As of September 30, 1999, $626.6 million of such bonds had been issued, leaving remaining authorization of $173.4 million.

(2) The $13.9 million Series 1992A and the $16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds, were used to provide a contribution of capital to the Michigan Municipal Bond Authority (a discretely presented component unit). An outside trustee for the authority is holding the bonds as an investment of the authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the authority.

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Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and section C at their accreted year-end book value. The tables which follow summarize capital appreciation bonds (in millions):

	ACCRETED BOOK VALUE	ULTIMATE MATURITY VALUE	MATURITY DATES
State Building Authority:			
1994 Series II	$ 23.0	$ 29.8	2000-2010
1997 Series II	27.2	43.3	2000-2013
General Obligation Bonds:			
Series 1989	29.7	43.9	2011
Series 1992	30.0	42.3	2012
College Savings Bonds - Series 1992 Mini-bonds	.7	1.8	2012
Series 1995	24.8	34.5	2001-2010
Revenue Dedicated - Transportation Related:			
Michigan Comprehensive Transportation - Series 1985	1.6	1.7	1995-2000
State Trunkline - Series 1989 A	21.8	35.7	2004-2009
State Trunkline - Series 1992 A and B	54.0	97.7	2005-2012

Advance Refundings and Defeasances

The State has defeased certain bonds by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	AMOUNTS OUTSTANDING
Recreation and Environmental Protection:	
Series 1989	$ 23.2
Series 1992	43.8
Total	$ 67.0
Michigan Comprehensive Transportation:	
Series 1985 (CAB)	6.1
Series 1992 A	5.1
Total	$ 11.2
State Trunkline Fund Bonds:	
Series 1992 A (partial)	131.2
Series 1992 B (partial)	56.8
Series 1994 A (partial)	112.8
Series 1996 A (partial)	41.2
Total	$ 342.0

State Building Authority:	AMOUNTS OUTSTANDING
1982 Series III	$ 19.3
1986 Series II	6.3
1987 Series I	3.5
1987 Series II	14.1
1988 Series I	22.7
1988 Series II	23.6
1989 Series I	101.5
1990 Series I	82.8
1990 Series II	146.5
1992 Series I	156.6
1992 Series II A	34.9
Total	$ 611.8

Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds (in millions):

FISCAL YEARS ENDING	GENERAL OBLIGATION PRINCIPAL	GENERAL OBLIGATION INTEREST	MUSTFA AND TRANSPORTATION RELATED PRINCIPAL	MUSTFA AND TRANSPORTATION RELATED INTEREST	STATE BUILDING AUTHORITY PRINCIPAL	STATE BUILDING AUTHORITY INTEREST	TOTAL PRINCIPAL AND INTEREST
2000	$ 41.2	$ 41.5	$ 41.0	$ 51.3	$ 121.7	$ 98.2	$ 394.9
2001	41.8	39.7	43.5	49.2	123.1	93.4	390.7
2002	43.5	38.0	45.9	46.9	117.8	88.0	380.1
2003	45.7	36.1	48.2	44.4	120.4	82.0	376.8
2004	47.6	34.1	50.9	41.9	124.8	75.5	374.8
2005-2029	687.2	229.5	867.8	379.4	1,360.1	506.3	4,030.3
Total	$ 907.0	$ 418.9	$ 1,097.3	$ 613.1	$ 1,967.9	$ 943.4	$ 5,947.6

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific

projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds. State Building Authority debt service fund unreserved fund balances totalled $220.7 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

B. Other General Long-Term Obligations

Capital Leases

Capitalized lease liabilities are described in more detail in Note #13. The leases are attributable to operations of the General Fund and two special revenue funds (the State Trunkline Fund and Michigan Employment Security Act – Administration Fund).

Compensated Absences

This liability is described in Note #12.

Claims and Judgments

In general, expenditures and fund liabilities are not recorded in governmental funds for claims and judgments until they are considered “due and payable” at September 30 and the related losses are certain. Liabilities for material claims and judgment losses are recorded in the General Long-Term Obligations Account Group when they are considered probable.

The liability recorded for claims and judgments includes projected amounts payable for workers’ compensation claims by State employees and an allowance for litigation losses. The gross amount of workers’ compensation liability, $289.4 million at September 30, 1999, has been recorded at its discounted present value of $192.9 million, using a discount rate of 8%. The present value of the current portion of this liability is $42.1 million. The Accident Fund Company billed State agencies for actual workers’ compensation claims paid plus administrative fees, totalling $42.8 million in fiscal year 1998-99.

The allowance for estimated liability for litigation losses, $691.7 million at September 30, 1999, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, where it is considered more than a reasonable possibility that a loss may be incurred. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totalled $526.7 million, at September 30, 1999. This amount will, over time, be paid to each “non-Durant” school district for its underfunded state mandated program costs if certain requirements are met. See Note #28 for additional disclosure regarding the Durant case and other contingencies. Fund expenditures for workers' compensation and settled litigation with long-term repayment provisions are recognized on the "due and payable" basis. Other losses are recognized as fund liabilities in the year of settlement, except that cases settled shortly after year-end are recognized as fund liabilities using a sliding materiality scale that increases from recognizing all losses in early October to recording only settlements in excess of $1.5 million after November 30 (see Note #28).

MUSTFA Liabilities

The MUSTFA Fund, a special revenue fund, receives revenues dedicated to reimbursing owners/operators of underground storage tanks (UST) for costs incurred related to conducting corrective actions at sites where a release has occurred from an UST. The MUSTFA reimbursement fund was declared insolvent and received no additional claims after June 29, 1995. The revenue is still collected to pay off two main obligations of the MUSTFA Fund: the long-term liability for incurred claims recorded in the General Long-Term Obligations Account Group, and the debt and debt service charges associated with the financial borrowing mechanisms utilized to expedite reimbursement to eligible owners/operators.

C. Changes in General Long-Term Obligations

Changes in general long-term obligations for the year ended September 30 are summarized as follows (in millions):

	GENERAL OBLIGATION DEBT	REVENUE DEDICATED DEBT- MUSTFA AND TRANSPORTATION RELATED	REVENUE DEDICATED DEBT - STATE BUILDING AUTHORITY	TOTAL BONDED DEBT
Bonded Debt:				
Balance - Beginning	$ 901.2	$ 1,087.6	$ 1,996.8	$ 3,985.6
New bond issues	-	-	416.1	416.1
Accretion on capital appreciation bonds	5.0	3.1	2.5	10.6
Bond principal retirements	(36.4)	(51.2)	(470.3)	(557.9)
	$ 869.8	$ 1,039.5	$ 1,945.1	$ 3,854.4

	CAPITAL LEASE OBLIGATIONS	COMPENSATED ABSENCES LIABILITIES	CLAIMS AND JUDGMENTS	MUSTFA CLAIMS	NET PENSION OBLIGATIONS	TOTAL OTHER OBLIGATIONS
Other Obligations:						
Balance - Beginning	$ 224.5	$ 428.7	$ 994.2	$ 8.5	$ 15.5	$ 1,671.3
Adjustment to beginning balance					(.1)	(.1)
Change in estimated liabilities	-	16.7	(109.6)	(2.3)	1.8	(93.4)
Capital lease additions	57.6	-	-	-	-	57.6
Capital lease payments and deletions	(29.6)	-	-	-	-	(29.6)
Balance - Ending	$ 252.5	$ 445.3	$ 884.6	$ 6.2	$ 17.2	$ 1,605.9

D. Unrecorded Limited Obligation Debt

The Michigan Family Farm Development Authority (MFFDA) formerly issued limited obligation bonds, which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt. Typically, these borrowings are repayable only from the repayments of loans, unloaned proceeds and related interest earnings, and any collateral, which may be provided. The MFFDA issued these types of bonds to foster the development of new farm operations. As of September 30, 1999, the MFFDA had bonds outstanding of $.5 million.