LFA
LEGISLATIVE FISCAL ANALYST

BONDING UPDATE

EXECUTIVE APPROPRIATIONS COMMITTEE OCTOBER 14, 2008

SUMMARY

The State of Utah currently has $1.028 billion of general obligation debt outstanding and an additional $1.432 billion of authorized general obligation debt not yet issued. Under the constitutional debt limit the state currently has an additional $3.034 billion of bonding capacity; however, if all authorized bonds were issued today, the state would have $1.602 billion of bonding capacity remaining. There is currently $682 million of bonding capacity remaining under the statutory debt limit; however, most highway bonds are exempted from the limit.

The current financial environment is deferring the short-term ability of the state to issue bonds. Experts estimate that the first opportunity the state may have to issue bonds could be the first quarter of calendar year 2009.

The state budget for debt service in FY 2009 was $247 million – $62 million for buildings, $155 million for highways, and $30 million for lease revenue bonded buildings. Building general obligation bond debt service has decreased over the last several years; while highway general obligation bond debt service has increased.

DISCUSSION AND ANALYSIS

Current Environment

The recent financial turmoil on Wall Street has deferred the ability of the state to issue bonds. The Utah Department of Transportation (UDOT) is working with the Treasurer and the state's financial advisors to issue $387.2 million of General Obligation bonds for critical highway needs ($357.2 million) and county highway projects ($30 million). As of the beginning of September, the state expected an October 7 issuance date. However, current uncertainty in the financial markets worldwide has caused the capital markets to seize up. Investors are not willing to spend their cash; instead they maintain a liquid position in overnight investments until the markets stabilize. As of October 3, there was approximately $20 billion supply of unissued municipal bonds. With the current environment in mind, the state canceled the October 7 sale of bonds.

The issuance of highway General Obligation bonds, or any other bonds for that matter, will be postponed until market conditions stabilize. That could be as late as the first quarter of calendar year 2009.

In addition, public finance rating agencies (Moody's, Standard & Poor, and Fitch) are looking closer at states and municipalities with a focus on underlying credit quality. Two of the three rating agencies (Standard & Poor and Moody's) have reaffirmed the state's AAA rating and the third (Fitch) is anticipated to release an AAA rating soon.

Outstanding General Obligation Bonds

The state currently has slightly over a billion dollars of outstanding General Obligation debt. The following table displays the current outstanding General Obligation (GO) bond indebtedness as of October 1, 2008.

Current Outstanding GO Bond Indebtedness

Series	Purpose	Original Amount	Final Maturity Date	Outstanding as of Oct. 1, 2008
2001B*	Highways	$348,000,000	July 1, 2009	$37,650,000
2002A*	Various	$281,200,000	July 1, 2011	$18,075,000
2002B	Refunding	$253,100,000	July 1, 2012	$221,125,000
2003A*	Various	$407,405,000	July 1, 2013	$234,125,000
2004A	Refunding	$314,775,000	July 1, 2016	$314,775,000
2004B	Various	$140,635,000	July 1, 2019	$101,660,000
2007A	Various	$75,000,000	July 1, 2014	$66,400,000
Subtotal Prinicipal Amount of GO Debt				$993,810,000
Plus Unamortized Original Issue Bond Premiums				$46,011,200
Less Deferred Amount on Refunding				($11,894,800)
Total GO Debt				$1,027,926,400

*Portions refunded in subsequent bond issues

Table 1

Standard accounting protocols require that the state track the unamortized bond premiums (when bonds sell for more than their par value) and the deferred amount on refunding. These values are shown in the table above and are added to the outstanding principal amounts to arrive at the total value of outstanding debt service.

In recent years the state has issued eleven- to fifteen-year highway GO bonds and six-year building GO bonds. Whereas the building bonds have shorter maturities, they are being paid off at a faster rate than highway bonds. The following chart shows the debt service schedule over 17 years until the last bonds (currently issued) are paid off in FY 2020.

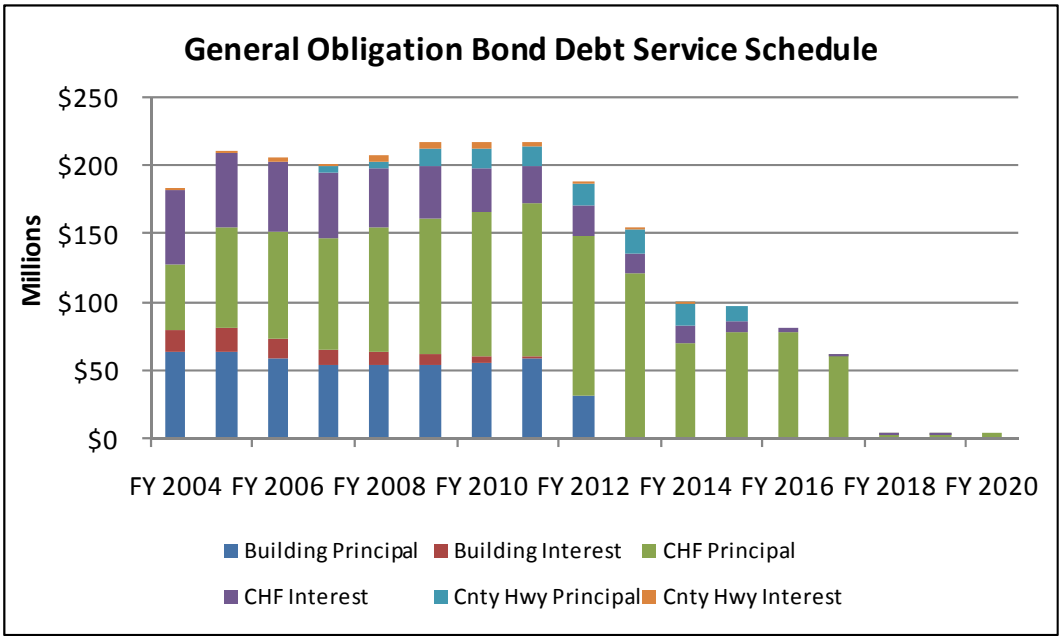

Figure 1

Bond Authorizations

The Legislature authorized the following General Obligation bonding amounts that have not yet been issued:

- $4.3 million for various building projects (2004 authorization)
- $111.1 million for USTAR buildings (2006 authorization)
- $1,200 million for critical highway needs (2007 and 2008 authorizations)
- $29.9 million for Salt Lake County highway projects (2007 and 2008 authorization)
- $42.5 million for the S.B. 298 land acquisition (2008 authorization)
- $43.75 million for the Utah State University agricultural building (2008 authorization)

Utah State University has met a $10 million requirement to receive $40 million of state-issued GO bonds to construct a Bio Innovations Research Institute. The University of Utah anticipates meeting its $30 million requirement by the first quarter of 2009 to receive $70 million of state-issued GO bonds for a Neuroscience and Biomedical Technology Research Building. Neither project anticipates bonding this year.

The Department of Transportation is currently working to issue $350 million of GO bonds from the $1.2 billion authorization for critical highway needs and $30 million for county highway projects. Depending on market conditions, these bonds could be issued immediately.

The Treasurer and the Governor's Office of Economic Development are working to fulfill the mandates of Senate Bill 298 of the 2008 General Session. They have hired a consultant to render an opinion on the requirements of S.B. 298 and are waiting to hear whether the bonds would be taxable or tax-exempt. These bonds can be issued as soon as all of the conditions of S.B. 298 are met; which should happen before the end of the year.

Utah State University is continuing to work with Senator Bennett and the Department of Agriculture to secure the federal portion of the funding for the new Agricultural Science Building. The enabling legislation requires federal money to be in-hand before the state can issue GO bonds. Utah State University does not anticipate issuing bonds this year.

Debt Service Budgets and Appropriations

General Fund and Education Funds are used to pay the debt service on the building portions of the General Obligation bonds. Centennial Highway Fund, the Critical Highway Needs Fund, and county of the first class ¼ of a ¼ cent sales tax are used to pay the debt service on the highway portions of the bonds. Dedicated credits are lease payments received from agencies to pay the debt service on lease revenue bonds.

Over the last several years the debt service for buildings has decreased while the debt service for highways has increased. As a result in FY 2009, the Legislature reduced the General Fund appropriation to debt service by $7 million and increased the Centennial Highway Fund and county sales tax appropriations by $13 million total. The table below shows the appropriated debt service for FY 2008 and FY 2009.

	FY 2008	FY 2009
Gen Fund	51,679,700	44,679,700
Ed Fund	17,164,300	17,164,300
Cent High	131,576,800	133,826,800
1/4 of 1/4	6,950,000	14,100,000
Ded Crd	34,578,800	29,820,000
Other	(2,671,200)	7,114,500
Total	239,278,400	246,705,300

Table 2

The Analyst estimates that the FY 2010 debt service will require an additional $3 million from the Centennial Highway Fund, and an additional $4 million from the county ¼ of a ¼ cent sales tax funds.

When the $387 million of critical highway needs and county highways bonds are issued in FY 2009, it is likely that the debt service on those bonds for FY 2010 would necessitate a $34 million appropriation from the Critical Highway Needs Fund and an additional $2.5 million appropriation from the county ¼ of a ¼ cent sales tax funds.

Constitutional Debt Limit

The state's constitutional debt limit caps total general obligation debt at 1.5 percent of the value of the state's taxable property. The following table shows the historical constitutional debt limits and bonding capacity for the state as of June 30 of each fiscal year. (Note that principal payments are made July 1 of each year and therefore the outstanding debt in Table 3 is different than Table 1, which is as of October 1.)

Constitutional Debt Limits

	30-Jun FY 2004	30-Jun FY 2005	30-Jun FY 2006	30-Jun FY 2007	30-Jun FY 2008
Fair Market Value	$176,540,976,000	$185,620,197,200	$198,982,832,556	$233,012,858,600	$282,176,164,200
Constitutional Debt Limit (1.5%)	$2,648,114,600	$2,784,303,000	$2,984,742,500	$3,495,192,900	$4,232,642,500
Outstanding Constitutional GO Debt	($1,588,810,000)	($1,587,804,000)	($1,436,845,100)	($1,284,023,200)	($1,198,172,400)
Additional Bonding Capacity	**$1,059,304,600**	**$1,196,499,000**	**$1,547,897,400**	**$2,211,169,700**	**$3,034,470,100**

Table 3

The fair market value of property used in the constitutional debt limit calculations comes from the *Utah Property Tax Annual Statistical Report* issued by the State Tax Commission. These reports are issued annually in August for the tax year ending the previous December.

The following chart shows potential scenarios of how the constitutional debt limit may look in the future. The green line represents the current outstanding debt the state has on its books. The light blue line is an estimate of the debt service on the authorized bonds not yet issued added to the existing outstanding debt. The purple, orange, and red lines depict the constitutional debt limit assuming 5%, 3%, and 1% growth respectively in the fair market value of property over the next 15 years.

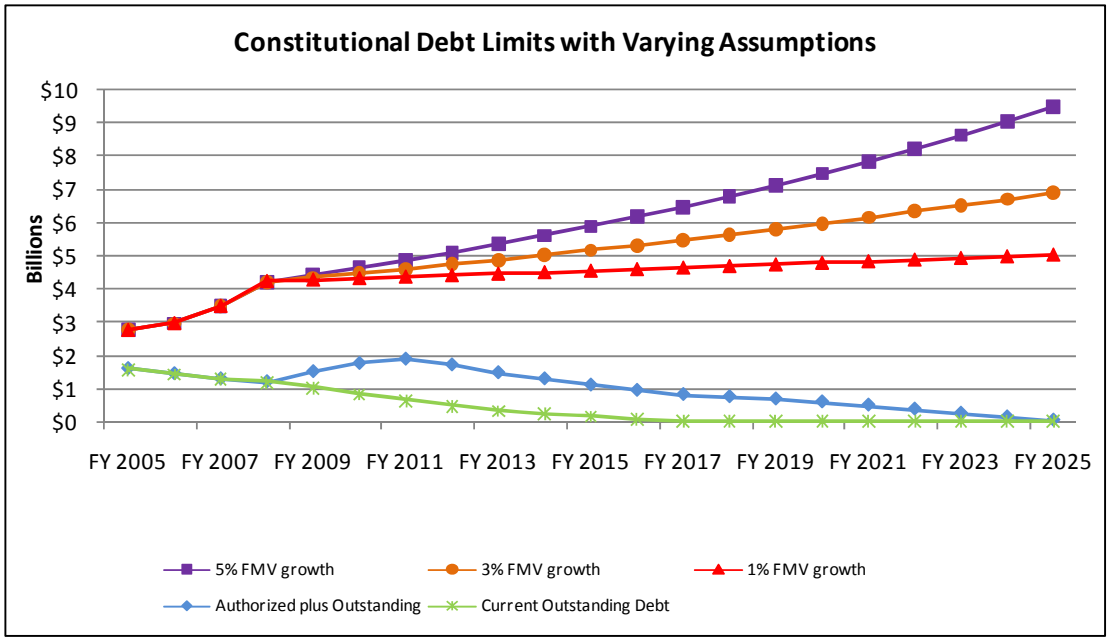

Figure 2

The two largest factors that determine how much debt-incurring capacity the state has under the constitutional debt limit are the growth in fair market value of property in Utah and debt service schedules of bonds. From tax year 2003 to 2004 the fair market value (FMV) of property grew 5% while from tax year 2006 to 2007 it grew 21%. Whether FMV continues to grow or levels off will make a difference to the constitutional debt limit as shown in the graph above. Likewise the structure and timing of bonds issued by the state has a large impact on the constitutional debt limit. Large issuances of bonds (usually for highway projects) push the state closer to the constitutional debt limit. If the large issuances can be broken into smaller pieces issued over several years or if the bond issuances are structured such that principal is paid off sooner than later, there will be more flexibility under the constitutional debt limit.

Other indirect factors that affect the constitutional debt limit include construction costs and state revenues. As construction costs increase the amounts needed for bonds increase, thus narrowing the gap between the debt-incurring limit. Revenues (whether general fund sales tax or fuel tax and motor vehicle registrations) are used to pay the debt service on the bonds. The amount of revenue available helps determine the structure of the bonds, which in turn affects the constitutional debt limit. If, for instance, certain revenues are already committed for the first five years of a bond, the payment of principal on the bond will most likely be postponed; the debt service will stay on the books longer; and, unless other factors increase the constitutional debt limit, there will be less debt-incurring capacity.

Statutory Debt Limit

The state's statutory debt limit further caps general obligation debt to 45 percent of the allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation. The following table shows the statutory debt limits from the last five years.

Statutory Debt Limits					
	30-Jun FY 2004	**30-Jun FY 2005**	**30-Jun FY 2006**	**30-Jun FY 2007**	**30-Jun FY 2008**
Appropriations Limitation	$1,856,205,000	$1,956,584,000	$2,099,609,400	$2,276,693,000	$2,481,100,000
Statutory Debt Limit (45%)	$835,292,300	$880,462,800	$944,824,200	$1,024,511,900	$1,116,495,000
Outstanding Constitutional GO Debt	($1,588,810,000)	($1,587,804,000)	($1,436,845,100)	($1,284,023,200)	($1,198,172,400)
Exempt Transportation Bonds	$980,811,000	$957,092,800	$877,979,000	$790,567,100	$763,582,800
Net Outstanding Debt	($607,999,000)	($630,711,200)	($558,866,100)	($493,456,100)	($434,589,600)
Additional Bonding Capacity	**$227,293,300**	**$249,751,600**	**$385,958,100**	**$531,055,800**	**$681,905,400**

Table 4

CONCLUSION

The State of Utah currently has $1.028 billion of general obligation debt outstanding and an additional $1.432 billion of authorized general obligation debt not yet issued. If all of the currently authorized bonds were issued in the next three years, there should be at least $2 billion of debt-incurring capacity remaining under the constitutional debt limit; though actual numbers will depend on the growth of the fair market value of property.

The current financial turmoil has deferred the short-term debt issuance for the state. At this time it is unclear how long or to what extent the market for bonds will be affected. Interest rates have increased and will affect future bond issuance decisions. All three rating agencies are anticipated to reaffirm the state's AAA rating and will be watching the state closely in the future.