Budget Brief: Debt Service

SUMMARY

Debt Service is made up of interest and principal due on the state's bonded indebtedness. The state uses long-term debt to finance large capital expenditures including new construction, major remodeling and highway projects. Dedicated revenue streams such as enterprise fund revenue or dedicated lease payments secure some bonds. Debt service on revenue bonds and general obligation bonds is combined in this line item.

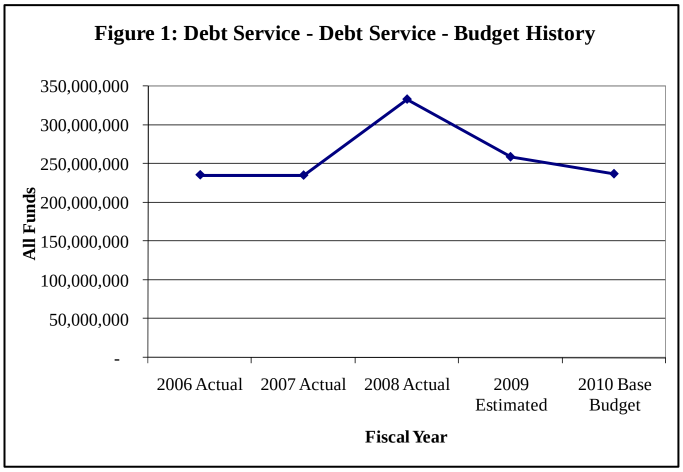
ISSUES AND RECOMMENDATIONS

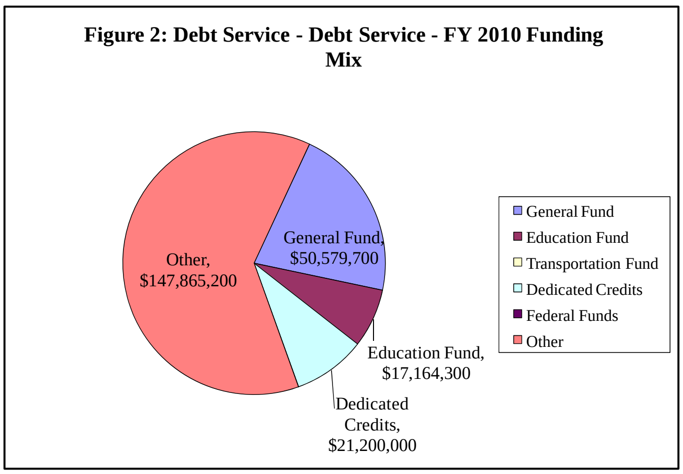
Outstanding General Obligation (G.O.) Bonds

Outstanding GO Bond Indebtedness

Series	Purpose	Original Amount	Final Maturity Date	Outstanding as of Jan. 1, 2009
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				$42,632,400
Less Deferred Amount on Refunding				($11,061,900)
Total GO Debt				$1,025,380,500

*Portions refunded in subsequent bond issues





This schedule does not include bonds authorized by the Legislature but not yet issued, such as $1.06 billion for highways, $26.3 million for Salt Lake County highways, $110 million for USTAR, and other miscellaneous projects.

Can bonds be paid off early?

Under our current schedule, Utah will pay off one bond (series 1998A) on July 1, 2008 and another (2001B) on July 1, 2009. Any bond can be legally defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding transaction (which the state has already taken advantage of during times of low interest rates), a defeasance can also be accomplished with cash. Doing so would involve setting aside enough cash in an escrow account to meet all payments of principal and interest on the outstanding bonds as they become due, thereby instantly removing the debt from the balance sheet. See Issue Brief *Debt Defeasance* for more information.

FY 2010 Adjustments to Debt Service

General Fund and Education Funds are typically used to pay the debt service on the building portions of the General Obligation bonds. Centennial Highway Funds and County of the First Class funds are used to pay the debt service on the highway portions of the bonds.

The FY 2010 the debt service on buildings will require $500,000 less General Fund; however, the 2009 Legislature is recommending an additional $6.4 million in General Fund for new debt service on GO bonds for buildings to help balance the FY 2009 budget. The Analyst recommends making these adjustments to the debt service base budget.

Furthermore, in FY 2010 the debt service requirements for highway General Obligation bonds will increase by approximately $7.2 million. The Analyst recommends an appropriation of $3,195,700 from the Centennial Highway Fund and $3,955,000 from the County of the First Class Highway fund to pay the increased debt service on highways bonds.

Any additional bonding in FY 2010 will require additions to the debt service line item from the appropriate funding source.

Non-lapsing Balance

The Debt Service line item finished FY 2008 with a $26.6 million non-lapsing balance. Of that amount, $5.8 million is committed to pay future lease revenue bonds. The Legislature decreased the nonlapsing balance by $12 million in FY 2009 and replaced $7 million of ongoing General Fund with one time nonlapsing balances of $7 million. The 2009 Legislature further reduced the balance by $1 million in FY 2009. The chart at right shows the five year history of the non-lapsing balance.

Non-lapsing Balance	
FY 2005	12,635,900
FY 2006	20,722,200
FY 2007	23,534,200
FY 2008	26,569,300
FY 2009 Est.	8,116,900

Utah's "Triple A" Rating

The three national rating agencies (Moody's Investor Service, Fitch Ratings, and Standard and Poor's) provide ratings of credit worthiness of all states. At this time only seven states merit a "Triple A" rating from all three agencies: Delaware, Georgia, Maryland, Missouri, North Carolina, Utah, and Virginia.

Utah maintains an "AAA" rating for many reasons, since ratings factors are complex, but in large part because of the commitment to good management shown by both the Executive and Legislative Branches. Utah's track record of showing a willingness to manage its debt seems to be as important as its ability to pay its debt.

ACCOUNTABILITY DETAIL

Constitutional and Statutory Bonding Capacity

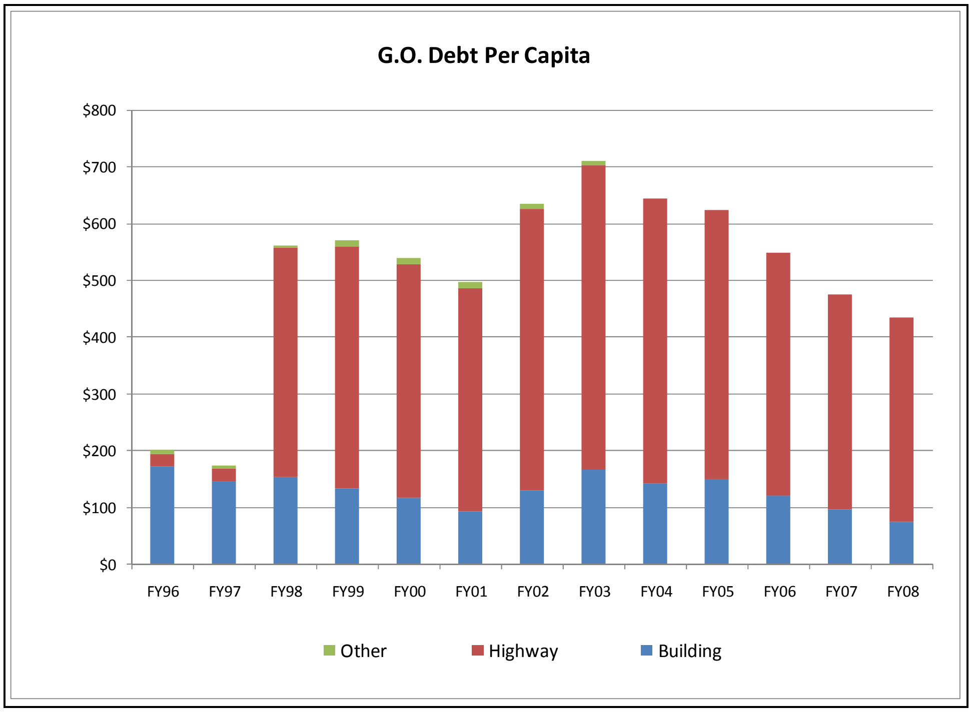
Remaining General Obligation Debt Capacity

	FY 2005	FY 2006	FY 2007	FY 2008
Constitutional	$1,196,499,000	$1,547,896,900	$2,211,169,800	$3,034,469,600
Statutory	$249,751,600	$385,958,100	$531,055,800	$680,343,500

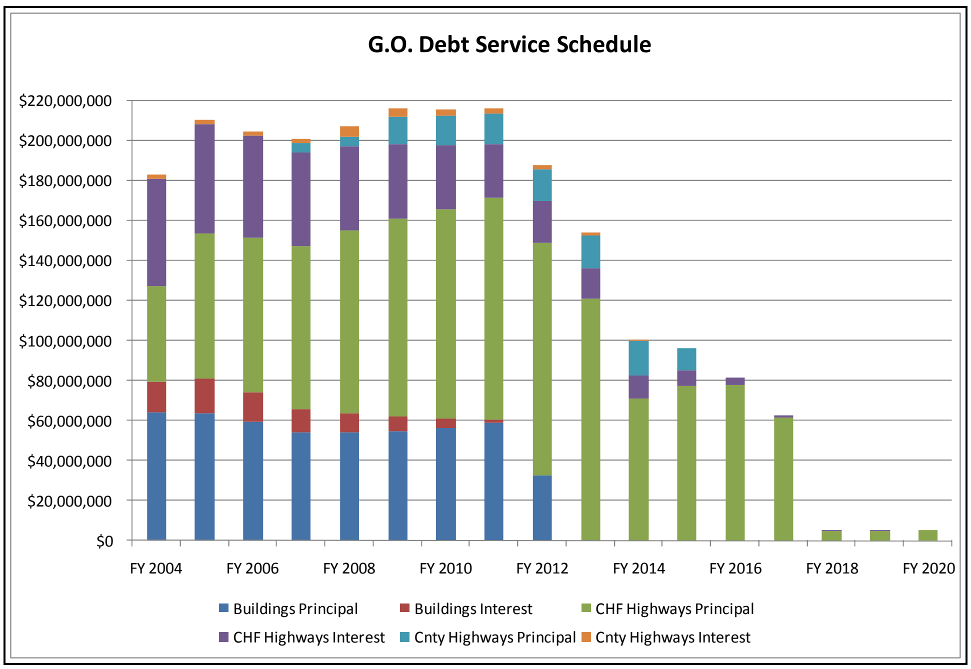
The state's constitutional debt limit caps total general obligation debt at 1.5 percent of the value of the state's taxable property. The state's statutory debt limit further caps general obligation debt to 45 percent of the allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation.

General Obligation Debt Per Capita

While the state's population has grown by 25.8 percent in the last ten years (since FY 1998), the state's per capita general obligation debt has decreased 23.9 percent. In FY 1999 the state's general obligation debt peaked at $570.7 million as a result of the I-15 reconstruction project in Salt Lake County.



Debt Service Schedule of Outstanding G.O. Bonds



In FY 2009 the state will pay off $167.7 million of general obligation bond principal ($54.8 million for buildings plus $112.9 million for highways), and will pay $48.9 million in interest on general obligation bond debt. In FY 2010 the state will pay off $175.5 million of general obligation bonds ($56.4 million for buildings plus $119.1M for highways), and will pay $40.6 million in interest on general obligation bond debt. This chart does not reflect bonds authorized by the Legislature, but not yet issued.

BUDGET DETAIL

During the 2006 General Session the Legislature approved a technical change of appropriating from the Education Fund (mostly income taxes) rather than from the Uniform School Fund. The Uniform School Fund should be used solely for public education, while the Education Fund can be used for higher education.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A total FY 2010 base appropriation of $236,809,200 for the Debt Service line item.
2. An ongoing FY 2010 appropriation of $3,195,700 from the Centennial Highway Fund and $3,955,000 from the County of the First Class Highway fund to pay the increased debt service on highways bonds.

BUDGET DETAIL TABLE

Debt Service

Sources of Finance	FY 2008 Actual	FY 2009 Appropriated	Changes	FY 2009 Revised	Changes	FY 2010* Base Budget
General Fund	51,679,700	44,679,700	5,900,000	50,579,700	0	50,579,700
General Fund, One-time	0	(12,000,000)	(6,900,000)	(6,400,000)	18,900,000	0
Education Fund	17,164,300	17,164,300	0	17,164,300	0	17,164,300
Centennial Highway Fund	127,976,800	133,826,800	0	133,826,800	0	133,826,800
Centennial Highway Fund, One-time	3,650,000	0	0	0	0	0
Dedicated Credits Revenue	125,527,800	29,820,000	0	29,820,000	(8,620,000)	21,200,000
Dedicated Credits - GO Bonds	3,261,900	0	0	0	0	0
TFR - County of First Class State Higl	6,950,000	14,100,000	0	14,100,000	0	14,100,000
Beginning Nonlapsing	23,534,200	27,231,400	11,337,900	26,569,300	(31,114,400)	6,954,900
Closing Nonlapsing	(26,569,300)	(8,116,900)	662,000	(6,954,900)	(61,600)	(7,016,500)
Total	$333,175,400	$246,705,300	$10,999,900	$258,705,200	($20,896,000)	$236,809,200
Programs						
Debt Service	333,175,400	246,705,300	10,999,900	258,705,200	(20,896,000)	236,809,200
Total	$333,175,400	$246,705,300	$10,999,900	$258,705,200	($20,896,000)	$236,809,200
Categories of Expenditure						
Current Expense	333,175,400	246,705,300	10,999,900	258,705,200	(20,896,000)	236,809,200
Total	$333,175,400	$246,705,300	$10,999,900	$258,705,200	($20,896,000)	$236,809,200

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.