

DEBT SERVICE

CAPITAL FACILITIES AND GOVERNMENT OPERATIONS APPROPRIATIONS SUBCOMMITTEE
STAFF: RICHARD AMON

BUDGET BRIEF

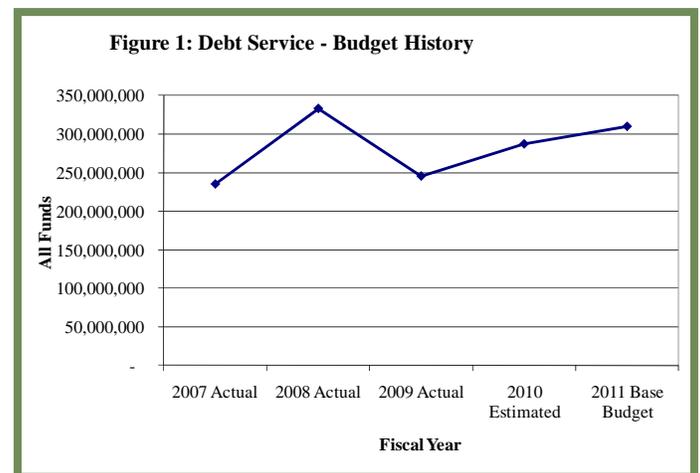
SUMMARY

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

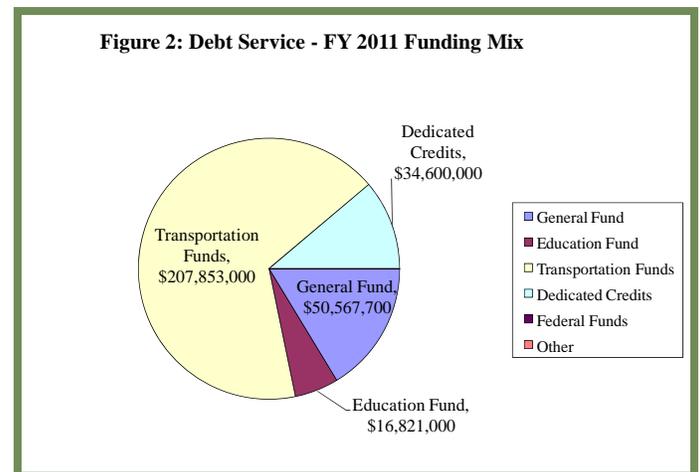
Outstanding GO Bond Indebtedness				
Series	Purpose	Original Amount	Final Maturity Date	Outstanding as of Jan. 1, 2010
2002A*	Hwys/Bldgs	\$281,200,000	July 1, 2011	\$12,325,000
2002B	Refunding	\$253,100,000	July 1, 2012	\$170,290,000
2003A*	Hwys/Bldgs	\$407,405,000	July 1, 2013	\$173,000,000
2004A	Refunding	\$314,775,000	July 1, 2016	\$314,775,000
2004B	Hwys/Bldgs	\$140,635,000	July 1, 2019	\$90,480,000
2007A	Hwys/Bldgs	\$75,000,000	July 1, 2014	\$57,450,000
2009A	Highways	\$394,360,000	July 1, 2024	\$394,360,000
2009B	Buildings	\$104,450,000	July 1, 2015	\$104,450,000
2009C	Hwys/Bldgs	\$490,410,000	July 1, 2018	\$490,410,000
2009D	Highways	\$491,760,000	July 1, 2024	\$491,760,000
Principal Amount of GO Debt				\$2,299,300,000



This schedule does not include bonds authorized by the Legislature but not yet issued: \$1.58 billion for I-15 and Mountain View Corridor projects, \$555 million for Critical Highway Needs projects, \$43 million for the USU Agricultural building, and \$11 million for other building projects.

Can bonds be paid off early?

Under our current schedule, Utah will pay off one bond (series 2002A) on July 1, 2011. 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.



FY 2011 Adjustments to Debt Service

General Fund and Education Funds pay the debt service on the building portions of General Obligation bonds. Centennial Highway, Critical Highway Needs, Transportation Investment, and County of the First Class transportation funds pay the debt service on the highway portions of General Obligation bonds.

The General Fund and Education funds in the Debt Service FY 2010 base budget are sufficient to pay debt service obligations related to buildings in FY 2011 **if there are no reductions**. The budget for highway bonds needs to increase by \$892,800 from the Centennial Highway Fund, \$1,680,800 from the County of the First Class Highway, \$15,239,100 from the Critical Highway Needs Fund, and \$1,431,100 from the Transportation Investment Fund to pay the increased debt service on highways bonds for FY 2011.

The Department of Transportation is working to estimate the level of bonding needed for FY 2011, which will require additional debt service appropriations in FY 2011. Any additional bonding authorizations will also require additions to the debt service line item from the appropriate funding source.

Non-lapsing Balance

The Debt Service line item finished FY 2009 with a \$11 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 chart at right shows the history and estimates of the non-lapsing balance. All of the estimated FY 2011 balance is committed to pay future lease revenue bonds and should not be re-allocated or re-appropriated.

Non-lapsing Balance	
FY 2006	20,722,200
FY 2007	23,534,200
FY 2008	26,569,300
FY 2009	10,980,300
FY 2010 Est.	6,960,100
FY 2011 Est.	4,588,600

Utah's "Triple A" Rating

The three national rating agencies (Moody's, Fitch, 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: Georgia, Maryland, Missouri, North Carolina, Tennessee, 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

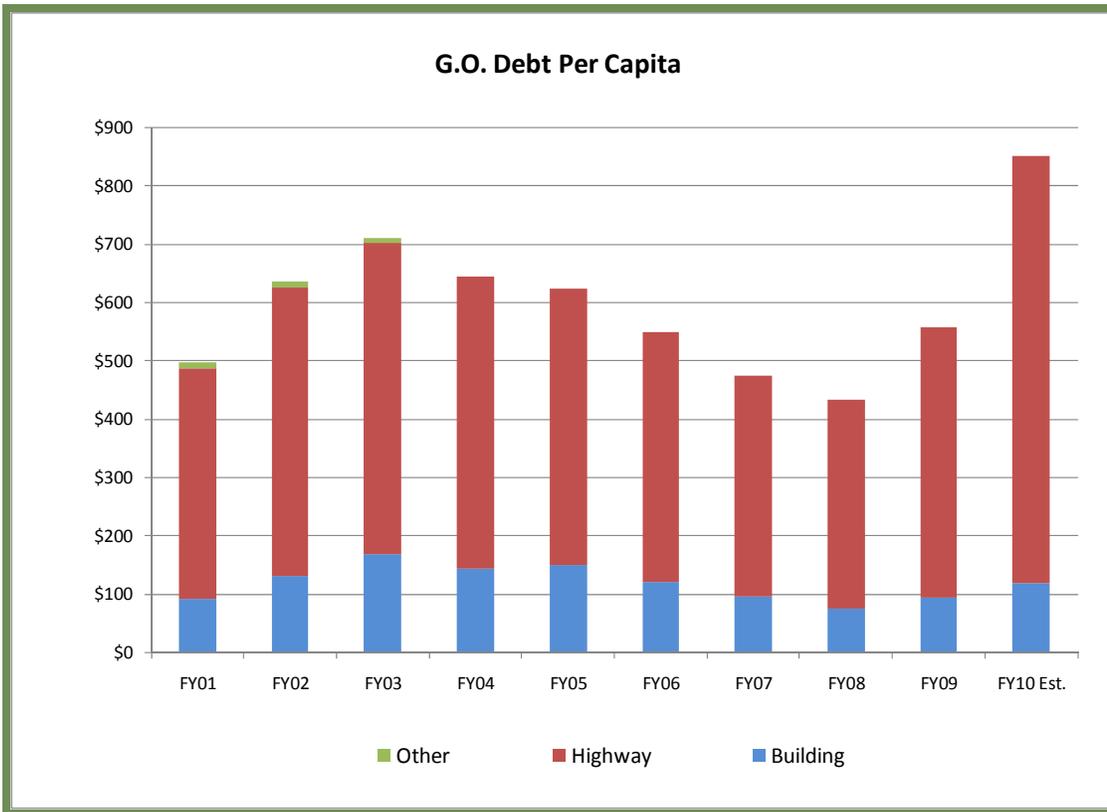
Constitutional and Statutory Bonding Capacity

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.

	Remaining General Obligation Debt Capacity				
	<u>30-Jun-06</u>	<u>30-Jun-07</u>	<u>30-Jun-08</u>	<u>30-Jun-09</u>	<u>1-Jan-10</u>
Constitutional	\$1,547,896,900	\$2,211,169,800	\$3,034,469,600	\$3,110,063,000	\$2,250,844,000
Statutory	\$385,958,100	\$531,055,800	\$681,905,400	\$661,682,000	\$632,821,000

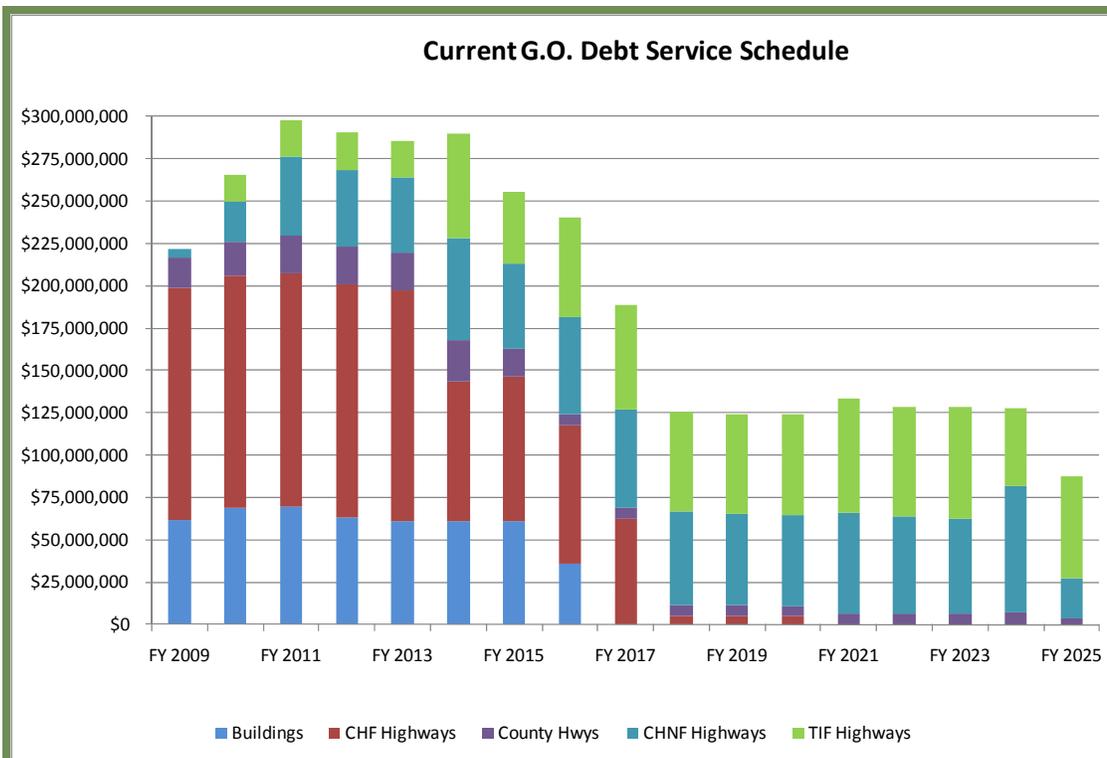
General Obligation Debt Per Capita

While the state's population has grown by 23.2 percent in the last ten years (since FY 2001), the state's per capita general obligation is expected to grow 71.5 percent. The previous peak in general obligation debt per capita occurred in FY 2003 at \$710 as a result of the I-15 reconstruction project in Salt Lake County. The FY 2010 estimate of the State's general obligation per capita debt is \$852.



Debt Service Schedule of Outstanding G.O. Bonds

In FY 2010 the state will pay off \$175.5 million of bond principal and pay \$90.4 million of interest on general obligation bond debt. In FY 2011 the state will pay off \$209.1 million of bond principal and pay \$88.9 million in interest on general obligation bond debt. These numbers do not include the Build America Bonds federal subsidy of \$5.8 million in FY 2010 and \$7.7 million in FY 2011. The chart below displays the current debt service schedule, but does not reflect bonds authorized by the Legislature, but not yet issued.



BUDGET DETAIL

The FY 2010 base budget of \$51,599,700 General Fund and \$17,164,300 Education Fund is required in FY 2011 to meet debt service obligations. The base budget bill (S.B. 1 and H.B. 1) decreased all line items (including Debt Service) by two percent to meet revenue estimates adopted by the Executive Appropriations Committee (EAC). The EAC, however, directed subcommittees to compile a list of options equal to a 5% ongoing cut which it will use to make final adjustments to the FY 2011 budget. The Analyst therefore recommends that any reductions allocated to this line item be reduced in the capital improvement line item instead (see Capital Improvements Brief for more information).

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. An additional ongoing FY 2011 appropriation of \$1,431,100 from the Transportation Investment Fund to pay increased debt service requirements.
2. An additional ongoing FY 2011 appropriation of \$15,239,100 from the Critical Highway Needs Fund to pay increased debt service requirements.
3. An additional ongoing FY 2011 appropriation of \$892,800 from the Centennial Highway Fund to pay increased debt service requirements.
4. An additional ongoing FY 2011 appropriation of \$1,680,800 from the County of the First Class Highway to pay increased debt service requirements.
5. A one-time FY 2010 reduction of \$5,280,900 from the Transportation Investment Fund and \$9,189,600 from the Critical Highway Needs Fund for bond issuances that were less than anticipated for FY 2010.

BUDGET DETAIL TABLE

Debt Service						
Sources of Finance	FY 2009	FY 2010		FY 2010		FY 2011*
	Actual	Appropriated	Changes	Revised	Changes	Base Budget
General Fund	50,579,700	51,599,700	0	51,599,700	(1,032,000)	50,567,700
General Fund, One-time	(18,900,000)	0	0	0	0	0
Education Fund	17,164,300	17,164,300	0	17,164,300	(343,300)	16,821,000
Transportation Investment Fund of 2005	1,400,000	20,300,000	0	20,300,000	0	20,300,000
Centennial Highway Fund	133,826,800	137,022,500	0	137,022,500	0	137,022,500
Dedicated Credits Revenue	20,871,300	21,200,000	(275,000)	20,925,000	13,675,000	34,600,000
Dedicated Credits - GO Bonds	5,492,000	0	0	0	0	0
TFR - County of First Class State Highway	14,462,000	19,307,500	0	19,307,500	0	19,307,500
Critical Highway Needs Fund	4,802,200	31,223,000	0	31,223,000	0	31,223,000
Beginning Nonlapsing	26,569,300	7,454,900	3,525,400	10,980,300	(4,020,200)	6,960,100
Closing Nonlapsing	(10,980,300)	(7,516,500)	(13,919,700)	(21,436,200)	14,476,100	(6,960,100)
Total	\$245,287,300	\$297,755,400	(\$10,669,300)	\$287,086,100	\$22,755,600	\$309,841,700
Line Items						
Debt Service	245,287,300	297,755,400	(10,669,300)	287,086,100	22,755,600	309,841,700
Total	\$245,287,300	\$297,755,400	(\$10,669,300)	\$287,086,100	\$22,755,600	\$309,841,700
Categories of Expenditure						
Current Expense	245,287,300	297,755,400	(10,669,300)	287,086,100	22,755,600	309,841,700
Total	\$245,287,300	\$297,755,400	(\$10,669,300)	\$287,086,100	\$22,755,600	\$309,841,700

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