

---

---

# Economic Development Task Force

---

~~Click to edit - Master presentation style~~  
Alan Westenskow - Vice President  
Zions Bank Public Finance

August 16, 2012



# David McCullough – U.S. Historian

*“One of the hardest, and I think the most important, realities of history to convey to students or readers of books or viewers of television documentaries is that nothing ever had to happen the way it happened. Any great past event could have gone off in any number of different directions for any number of different reasons. We should understand that history was never on a track. It was never preordained that it would turn out as it did.*”

*Very often we are taught history as if it were predetermined, and if that way of teaching begins early enough and is sustained through our education, we begin to think that it had to have happened as it did. We think that there had to have been a Revolutionary War, that there had to have been a Declaration of Independence, that there had to have been a Constitution, but never was that so. In history, chance plays a part again and again. Character counts over and over. Personality is often the determining factor in why things turn out the way they do.*

*Furthermore, nobody ever lived in the past. Jefferson, Adams, George Washington—they didn’t walk around saying, “Isn’t this fascinating living in the past? Aren’t we picturesque in our funny clothes?” They were living in the present, just as we do. The great difference is that it was their present, not ours.*

Source: <http://speeches.byu.edu/act=newitem?id=1516>

# Utah's Current Competitive Advantages

---

- Hub location for transportation – rail, air, trucking
- Low cost of electricity
- Relatively low cost of living
- Good work ethic and young, relatively educated work force, which is always growing
- Easy access to outdoor recreation opportunities
- Relatively low taxes for individuals and businesses
- Fiscally well managed governments
- Good transportation – public transit and general highway connectivity
- Good higher education system
- Foreign language ability

# Where Can Utah Improve?

---

- Air quality issues
- Perceptions of nightlife and culture
- K-12 education stresses
- Work force that is sufficiently trained in required specialties and work opportunities to prevent out migration of educated work force

# Future Issues

---

- Constrained water resources
- Keeping infrastructure up with rapid population growth
- Balancing future electricity demands with yet to be determined environmental regulations
- Global trade

# Past Policy Decisions That Have Benefitted Utah

---

- Because Utah has been conservative in its past debt policies it has had enough capacity to fund necessary infrastructure projects when needed
  - I-15 CORE project could be funded at a time when construction was needed, but federal money had dried up. State could issue sufficient amount of bonds and still maintain AAA rating
- Utah's debt laws and policies have allowed Utah to build enough infrastructure to meet local and statewide needs
- Business friendly tax environment
- Historic good balance of debt and infrastructure spending

# Policy decisions that can be made today to position future Utah economy

---

- Maintain all financing options at both the state and local levels
- Resist ideas to limit debt capacity and options
  - Idaho debt constraints
- Focus on policies that coordinate resources within state instead of making communities compete for local business
- Maintain representative democratic system to coordinate and steer issues

# Direct Democracy Case Study: California

- What is unique about California is not its set of challenges, which differ in scale but not in kind from those elsewhere. It is its brand of democracy.
- The Southern Pacific Railroad had corrupted every part of the State. As one reporter wrote in 1896, “it didn't matter whether a man was a Republican or Democrat. The Southern Pacific Railroad controlled both parties, and he either had to stay out of the game altogether or play it with the railroad.”
- To reform the influence of special interests in October 1911 California voters had to decide on three new types of balloting: referendums, recalls and initiatives. They accepted them all with enthusiasm.
  - ❑ **Referendum:** A vote in which the citizens accept or reject a proposal such as a law passed by their legislature
  - ❑ **Recall:** A vote by the people to remove an elected official from office before the official's term expires
  - ❑ **Initiative:** A measure put on a ballot by a petition of citizens
  - ❑ **Proposition:** An initiative or measure that has qualified for a

<http://www.economist.com/node/18563638>

# Characteristics of Different Types of Bonds

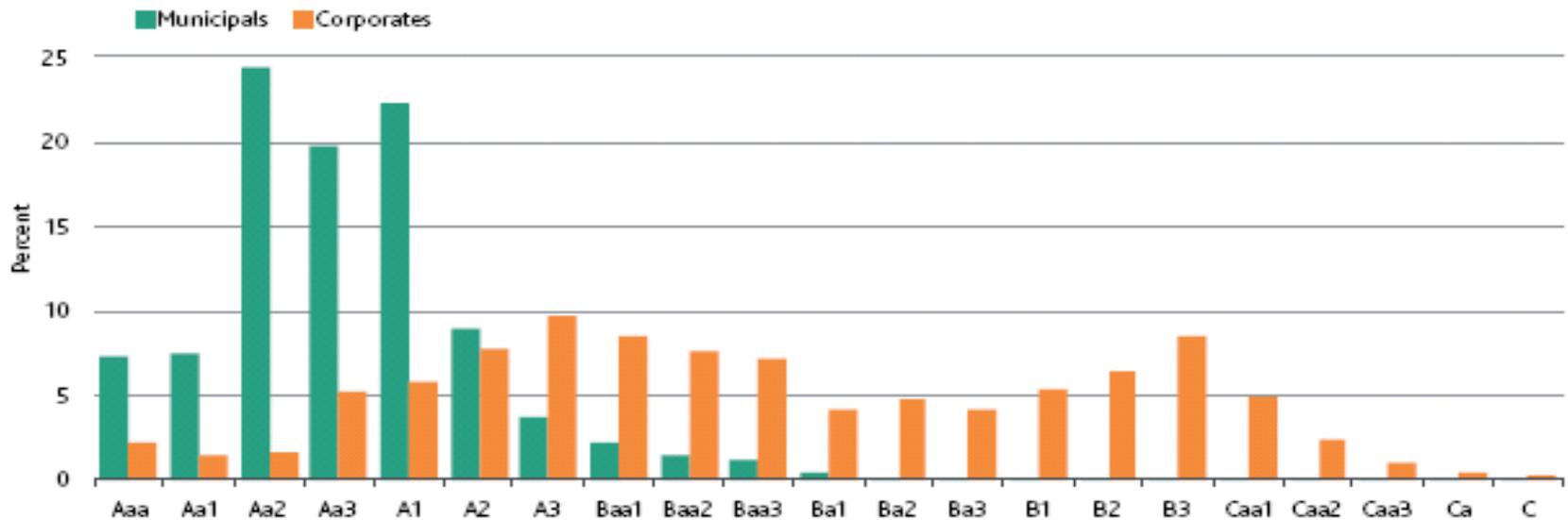
BOND TYPE	Security/Collateral	Source of Revenue for Repayment	Required Authorization	Types of Projects	Debt Incurring Capacity
General Obligation (G.O.) Bonds <i>Bond Act 11-14</i>	Ad valorem property taxes	G.O. property tax levy, general fund, or other revenues	50% vote held in November or June	Many public projects	8% to 12% of city's market value
Revenue Bonds (Enterprise Fund) <i>Bond Act 11-14</i>	Revenues from water, sewer, electric, or other enterprise funds	Revenues from water, sewer, electric, or other enterprise funds	Authorization from City Council	Projects related to revenue source being pledged	Determined by market, min. 1.25 times coverage
Excise Tax Revenue Bonds <i>Bond Act 11-14</i>	Revenues from sales tax, class C road tax, franchise tax, or other excise taxes	Excise tax revenues or other available general fund revenues	Authorization from City Council	Roads and other public projects	Determined by market, min. 1.25 times coverage
Lease Revenue Bonds <i>LBA Act 17D-2</i>	Leased revenues and financed improvements	Annual appropriation lease revenues from city operations or other revenues	Authorization from City Council and LBA Board	Real property, noninfrastructure	Determined by market
Tax Increment Bonds <i>17C-1-501-508</i>	Tax increment from tax base growth in RDA	Tax increment revenues	Authorization from City Council and possibly other taxing authorities	Water, sewer, road, and other infrastructure	Determined by market, 2-3 times coverage
Special Assessment Bonds <i>Bond Act 11-42</i>	Assessed property within Special Assessment Area	Special Assessments against property	Creation of SAA and authorization by City Council	Water, sewer, road, and other infrastructure	Determined by market, 3-4 times coverage

# Bond Ratings

MOODY'S	S&P'S	FITCH'S	
<b>Investment Grade</b>			
Aaa	AAA	AAA	Highest
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	Top Quality; "Gilted-edged" High Grade; Very Strong
A1	A+	A+	
A2	A	A	
A3	A-	A-	Upper Medium Grade; Strong
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	Medium Grade; Adequate

# Moody's Ratings Distributions: Municipals vs. Corporates, Year End 2011

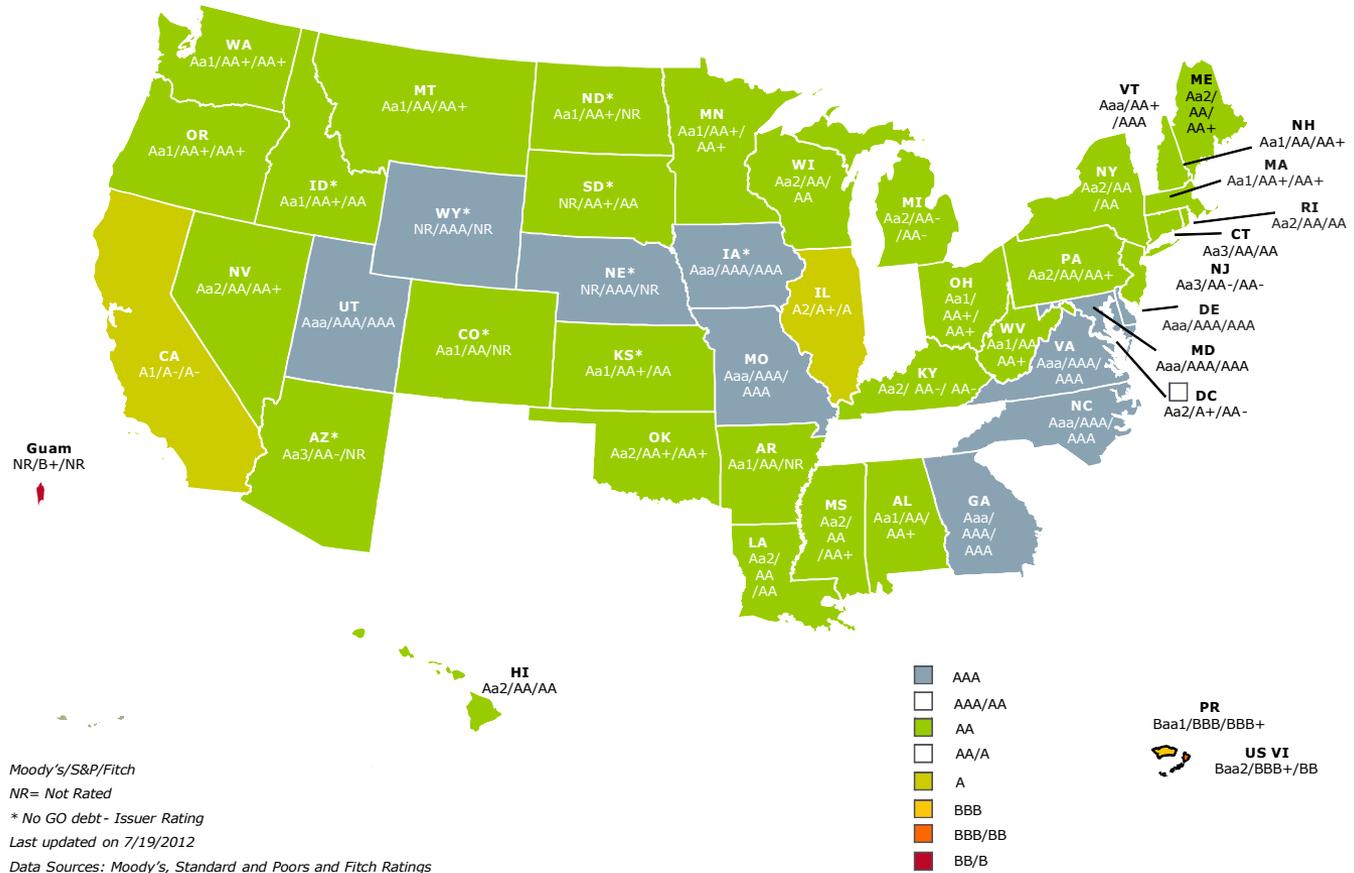
Ratings Distributions: Municipals vs. Corporates, Year End 2011



Source: [http://www.moody.com/viewresearchdoc.aspx?docid=PBC\\_140114](http://www.moody.com/viewresearchdoc.aspx?docid=PBC_140114)

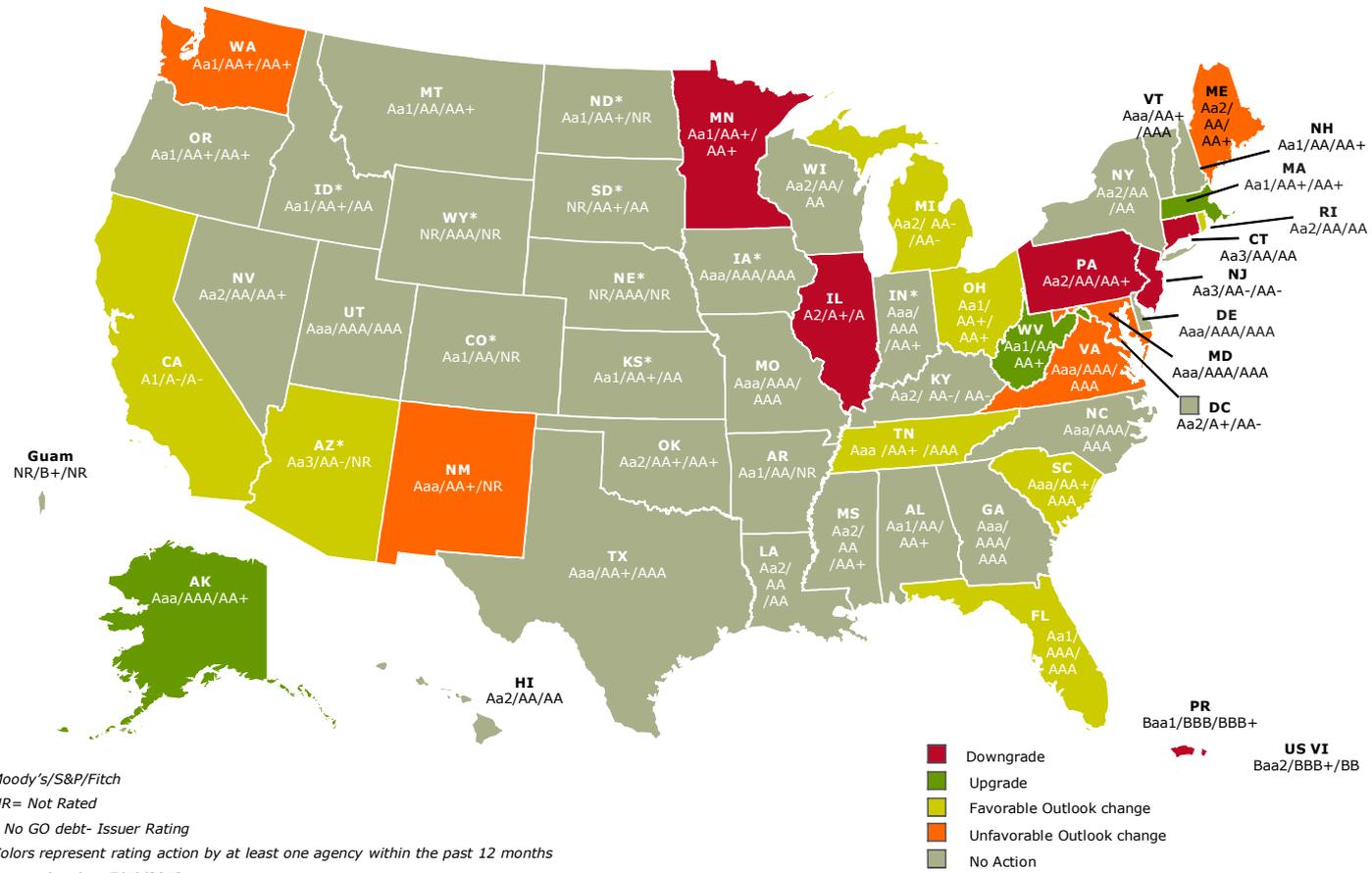
# Bond Ratings of US States

## State Rating Category Map



# Recent Rating Action for US States

Rating Action Heat Map: 7/2011- 7/2012



# Average One-year Rating Transition Rates, 2008-2011, GO and Non-GO

## Average One-year Rating Transition Rates, 2008-2011, GO and Non-GO

### Non-General Obligations

From/To:	Aaa	Aa	A	Baa	Ba	B	Caa_C	Default	WR
Aaa	84.91%	1.29%	0.37%	0.09%	0.11%	0.01%			13.23%
Aa	0.19%	92.37%	1.76%	0.03%	0.00%	0.01%	0.00%		5.63%
A	0.04%	1.64%	88.14%	1.32%	0.06%	0.01%	0.01%	0.00%	8.78%
Baa	0.05%	0.11%	2.47%	83.09%	2.59%	0.22%	0.10%	0.03%	11.35%
Ba	0.05%	0.10%	0.26%	4.60%	76.97%	6.09%	1.08%	0.03%	10.83%
B		1.32%		0.19%	3.19%	68.45%	16.43%	4.13%	6.29%
Caa_C							72.57%	14.94%	12.50%

### General Obligations

From/To:	Aaa	Aa	A	Baa	Ba	B	Caa_C	Default	WR
Aaa	95.84%	2.50%							1.66%
Aa	0.20%	96.67%	1.38%	0.01%		0.00%		0.00%	1.74%
A	0.02%	1.90%	92.46%	0.37%	0.03%	0.01%			5.21%
Baa		0.12%	1.69%	66.77%	1.70%	0.22%	0.03%	0.16%	29.30%
Ba				8.30%	78.60%	7.93%	0.37%	0.37%	4.43%
B						72.55%	21.57%		5.88%
Caa_C							100.00%		

#### Notes:

1. The first cohort considered is the one-year cohort starting on January 1, 2008. The last cohort considered is the one-year cohort starting on January 1, 2011.
2. Transition rates are averaged over cohorts spaced one month apart.

Source: [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_140114](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_140114)

# Municipal Bond Default Counts by Sale Purpose, 1970-2011

Default Counts by Sale Purpose, 1970-2011

Purpose	Number of Defaults	Percentage
Housing	29	40.8%
Hospitals & Health Service Providers	23	32.4%
Education	3	4.2%
Infrastructure	4	5.6%
Utilities	2	2.8%
Cities	2	2.8%
Counties	1	1.4%
Special Districts	1	1.4%
Water & Sewer	1	1.4%
<b>NON GENERAL OBLIGATION</b>	<b>66</b>	<b>93.0%</b>
<b>GENERAL OBLIGATION</b>	<b>5</b>	<b>7.0%</b>
<b>TOTAL</b>	<b>71</b>	<b>100%</b>

Source: [http://www.moody.com/viewresearchdoc.aspx?docid=PBC\\_140114](http://www.moody.com/viewresearchdoc.aspx?docid=PBC_140114)

# Notable Municipalities in Distress

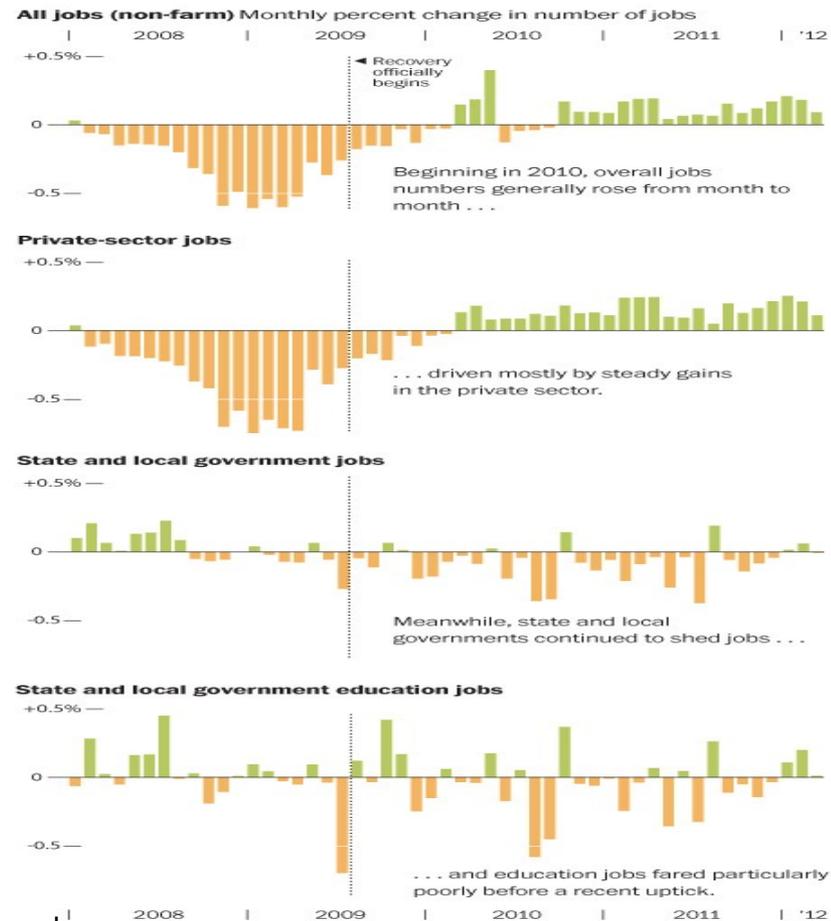
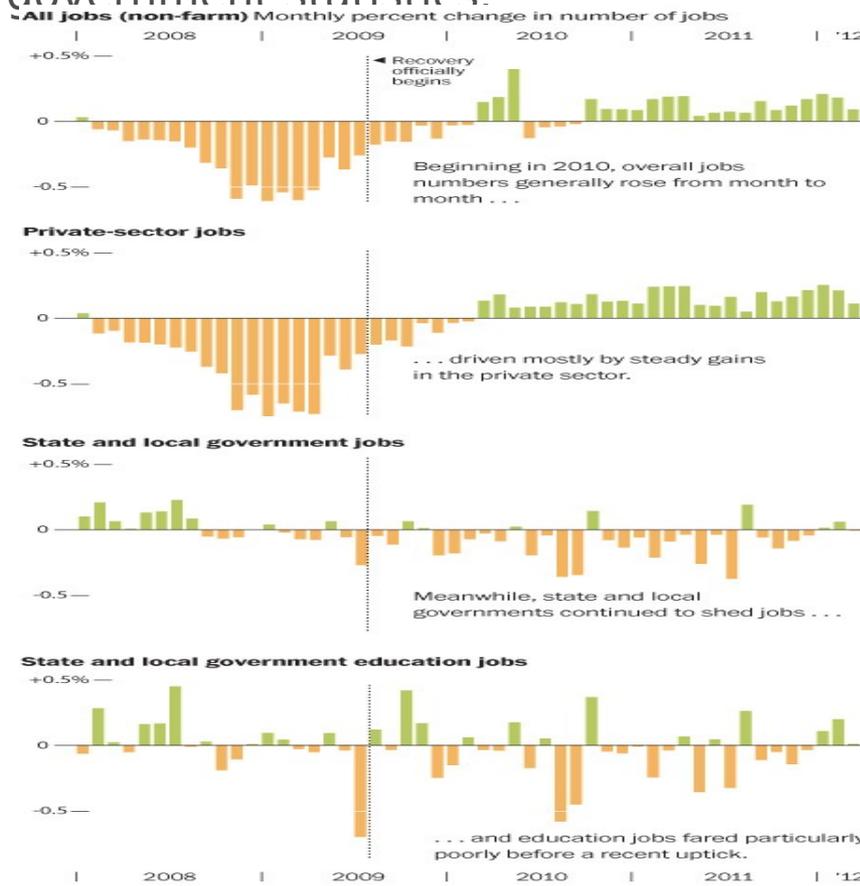
## Notable municipalities in distress

	Ratings	Fiscal Emergency	Receivership	Mediation	Bankruptcy	Default
Central Falls, RI	Caa1/RUR		x	x	x	
Detroit, MI	B3/RUR	x				
Harrisburg, PA	WR					x
Jefferson Cty, AL	Caa3/RUR			x	x	x
Menasha, WI	Ba2/STA					x
Moberly, MO	Not Rated					x
Pontiac City School District, MI	B2/NEG	x				
San Bernardino, CA	Not Rated	x			x	
Scranton, PA	Not Rated					x
Stockton, CA	Caa3/NEG	x		x	x	x
Vallejo, CA	WR			x	x	x
Victor Valley, CA	Ba1/RUR					x
Wenatchee, WA	Ba2/RUR					x

Source: Moody's Special Comment: Recent Local Government Defaults and Bankruptcies May Indicate a Shift in Willingness to Pay Debt

# Job loss trends in local government jobs

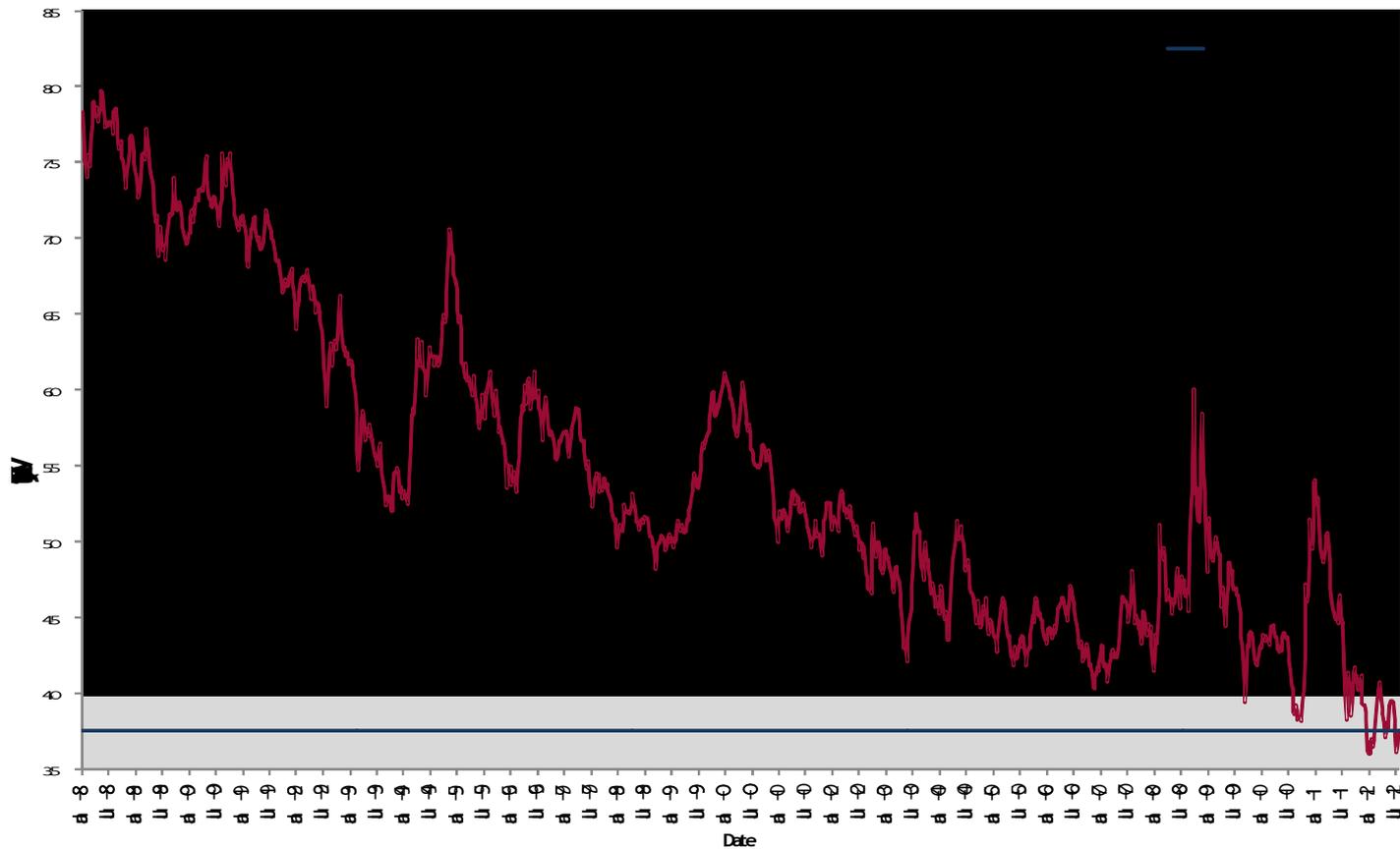
- Since the beginning of President Obama's term, state and local governments have shed 611,000 employees — including 196,000 educators — according to government statistics.



Source: [http://www.washingtonpost.com/business/economy/threat-from-mounting-public-job-losses-tested-obamas-economic-strategy/2012/04/29/gIQAhpMqT\\_story.html](http://www.washingtonpost.com/business/economy/threat-from-mounting-public-job-losses-tested-obamas-economic-strategy/2012/04/29/gIQAhpMqT_story.html)

# Bond Interest Rates

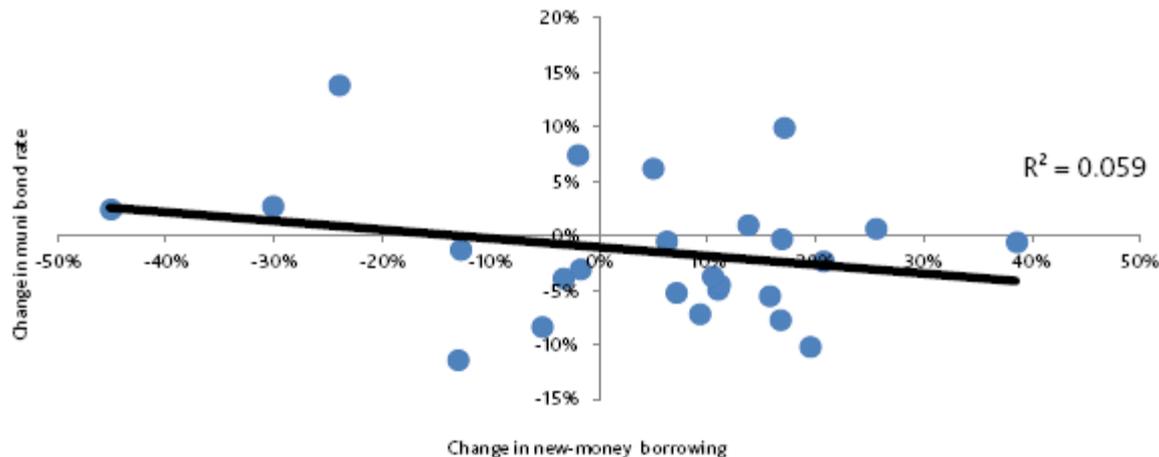
**Interest Rate Trend**  
**20 Year 20 Bond Buyer Index**  
January 1988 to August 2012



# New Money Borrowing Only Modestly Reactive to Interest Rates

- Interest rates are usually only a modest factor driving new-money bond issuance.
- State and local governments base their new-money borrowing plans primarily on capital needs, voter sentiment, political viability and relative health of operating budgets, with interest rates representing only a secondary consideration except during periods of extreme volatility.

New-Money Borrowing Shows Very Little Sensitivity to Rates



Source: Moody's Debt Driver 2012 Report 3/5/2012

# Volume of Bonds Issued in US 1992-2011

---

# Bond Volume Issued by Utah 1992-2011

---

# Bonds Per Capita: US and Utah

---

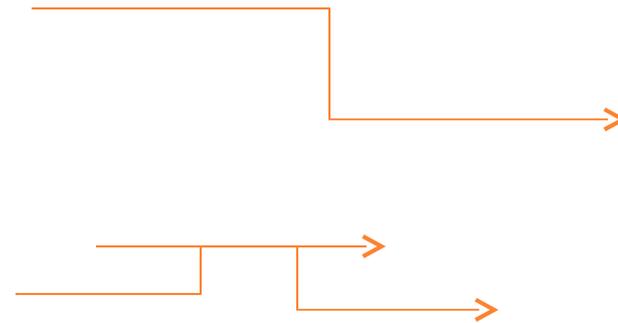
# Comparison of State Bonds Per Capita

■ Utah



# Uses of Utah Bond Issues 2011

---



# Uses of Utah Bond Issues 2010

---



# Utah Full Use of Bond Issues 2011

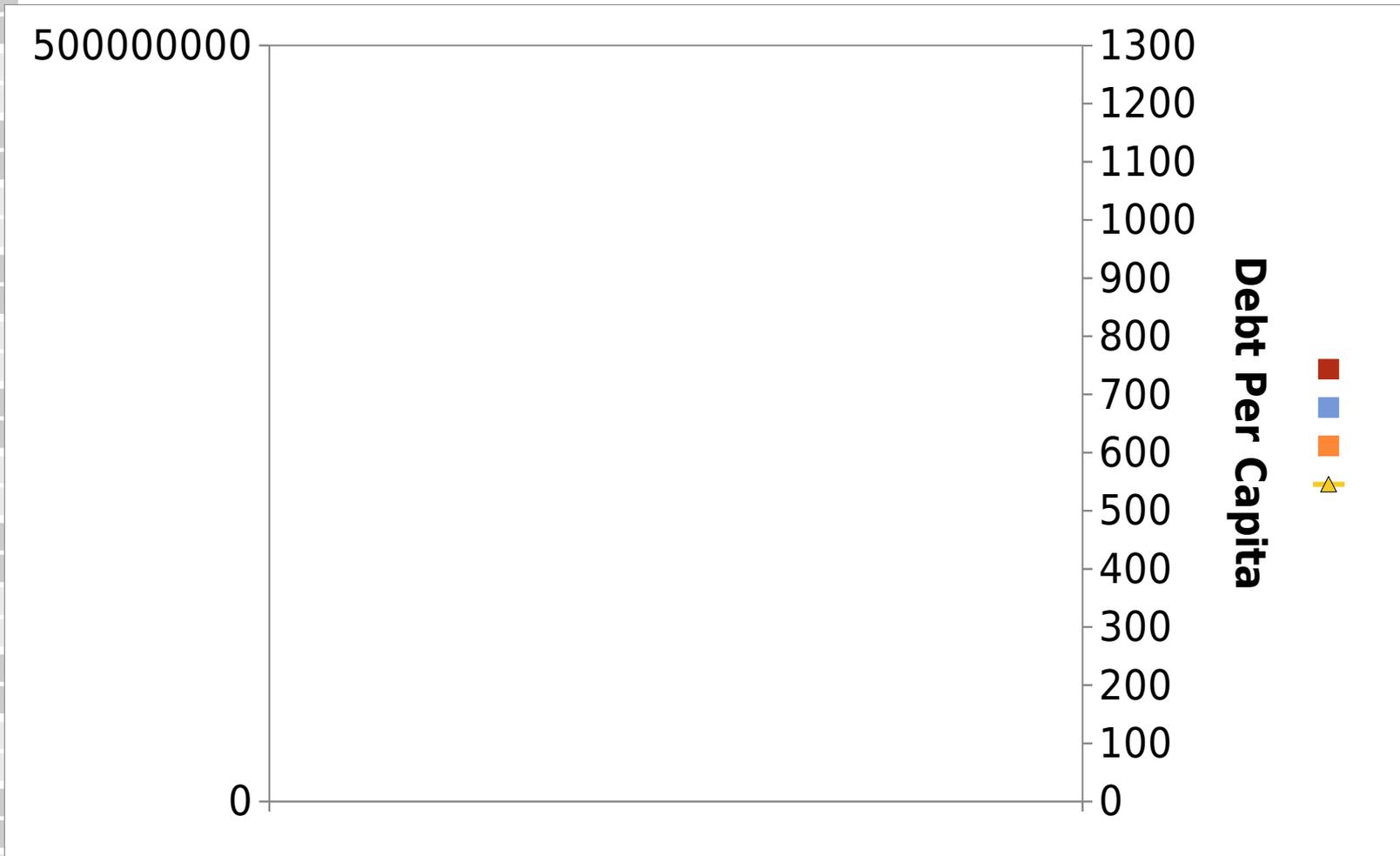
---

# State of Utah General Obligation Bonds Annual Debt Service (P&I)



Source: State's Financial Advisor (compiled from past Official Statements)

# State of Utah Recommended Debt Levels



# Permanent Community Impact Fund

---

- The Utah Community Impact Board Permanent Community Impact Fund provides grants and or loans to subdivisions of the state, which are or may be socially or economically impacted, directly or indirectly, by mineral resource development on federal lands. The CIB receives funding from a portion of federal mineral lease royalties returned to the State by the Federal Government.
- From 2007 to 2011 CIB distributed \$535,454,657
  - \$215,847,657 in ML Grants
  - \$160,981,000 in ML Loans
  - \$158,626,000 in Bonus Loans

# Economic Development Interviews

---

- Interviewed economic development professionals in communities throughout the State for “hands-on” input
- Organizations interviewed:

# Economic Development Survey

---

- Questions asked:

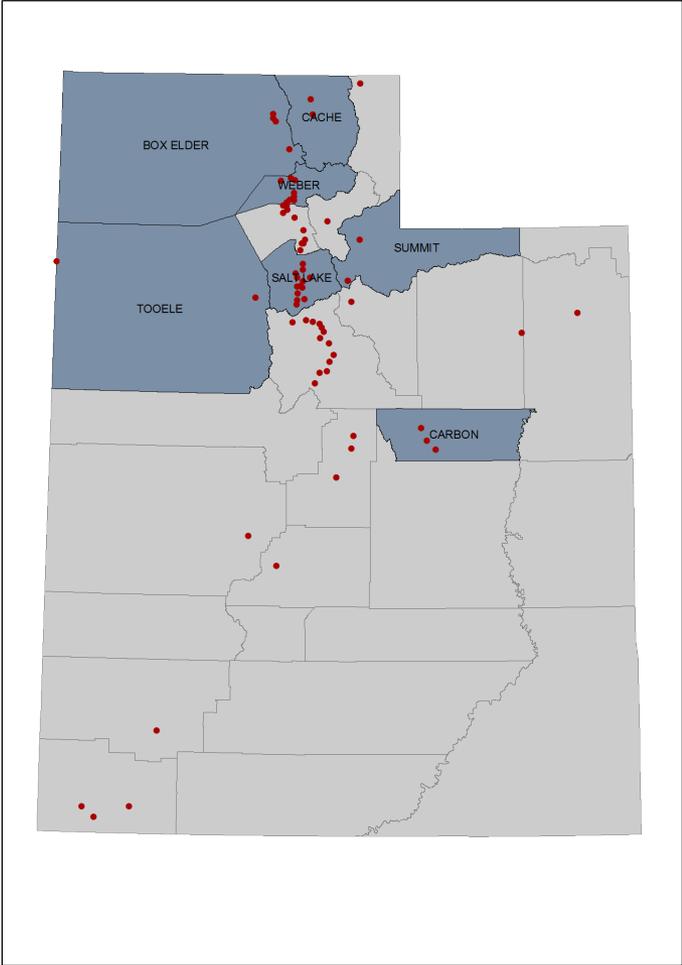
# #1 – Good Decisions Made . . .

---

# #1 – Good Decisions Made . . .

---

# Community Development Renewal Agencies



Source: Utah State Office of Education<sup>34</sup>

# Growth in Tax Increment



Source: *Utah State Office of Education*

# Facts About Tax Increment

---

*Source: Utah State Office of Education*

# #2 – Economic Tools Used

---

## #2 – Economic Tools Used

---

## #2 – Economic Tools Used

---

# #3 – Economic Challenges of Cities

---

# #3 – Economic Challenges of Cities

---

# #4 – Looking Forward . . .

---

# #4 – Looking Forward . . .

---

# #4 – Looking Forward . . .

---