DEBT SERVICE

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
STAFF: BRIAN WIKLE

ISSUE BRIEF

SUMMARY

Debt service is made up of interest and principal due on the state's bonded indebtedness. The state often uses bonds to finance large capital expenditures, including new facility construction, major remodeling, and highway projects. General Obligation (G.O.) bonds are backed by the full faith and credit of the state. Revenue bonds are secured by dedicated revenue streams such as enterprise fund revenue or lease payments. Debt service on revenue bonds and G.O. bonds is combined in this line item.

ISSUES

Outstanding G.O. Bonds

The table to the right includes current outstanding G.O. bond indebtedness broken out by buildings and highways. It does not include $63.7 million in bonds authorized by the Legislature but not yet issued.

Outstanding G.O. Bond Indebtedness

	Series	Original Amount	Final Maturity Date	Outstanding as of Jan 1, 2015
Capital Facility Projects	2009B	$ 104,450,000	July 1, 2015	$ 22,500,000
	2009C	$ 126,780,000	July 1, 2015	$ 13,115,000
	2010A	$ 79,710,000	July 1, 2016	$ 73,710,000
	2011	$ 46,860,000	July 1, 2017	$ 46,860,000
	2012A	$ 33,240,000	July 1, 2017	$ 33,115,000
Highway Projects	2004A*	$ 314,775,000	July 1, 2016	$ 131,315,000
	2009A	$ 394,360,000	July 1, 2019	$ 126,325,000
	2009C	$ 363,630,000	July 1, 2018	$ 268,490,000
	2009D	$ 491,760,000	July 1, 2024	$ 491,760,000
	2010A	$ 333,280,000	July 1, 2017	$ 135,965,000
	2010B	$ 621,980,000	July 1, 2025	$ 621,980,000
	2010C*	$ 172,055,000	July 1, 2019	$ 172,055,000
	2011	$ 563,060,000	July 1, 2026	$ 476,770,000
	2012A*	$ 4,110,000	July 1, 2015	$ 4,105,000
	2013	$ 226,175,000	July 1, 2028	$ 215,650,000
	** refunding*			$ 2,833,715,000

Can bonds be paid off early?

Almost every year at least one bond series is paid off as it reaches its normal maturity. Under the normal schedule, Utah will pay off two bonds (Series 2009B and the portion of Series 2009C dedicated to capital facility projects) on July 1, 2015. Any bond can be legally defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding transaction, a defeasance can also occur with cash. Doing so involves setting aside sufficient cash or U.S. Treasury obligations in an escrow account to meet all principal and interest payments on the outstanding bonds as they become due until their call date, at which point the escrow retires the remainder of the debt. However, the interest rate in the escrow account cannot exceed the interest rate on the bonds ("arbitrage") or the bonds can lose their federal authorization to be tax free to investors. With the historically low interest rates on Utah's bonds, defeasing them early may be an inefficient economic option.

Utah's "Triple A" Rating

The three nationally recognized bond rating agencies, Moody's, Standard and Poor's, and Fitch, provide ratings of credit worthiness of all states. As of September 23, 2014, ten states merit a "Triple A" rating from all three agencies: Alaska, Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Texas, Utah, and Virginia.

Build America Bonds Subsidy

Utah issued five bond series using the federal Build America Bonds (BAB) program (two G.O. issues and three revenue bond issues) which provided an IRS refund subsidy in return for selling taxable bonds at higher interest rates. The BAB program as originally programmed was estimated to save the State $55 million over 15 years on $1.114 billion of G.O. bonds. About three years ago, bond rating agencies provided direction to issuers using the BAB program to budget debt service gross of federal subsidies. This direction indicated a certain level of risk with the BAB program. To comply, the State appropriated an additional $15,252,400 from the General Fund to the Debt Service budget for FY 2013 and $14,154,200 for FY 2014. The funds will be transferred back to the General Fund upon receipt of the refund.

The risk that was anticipated was realized when federal sequestration reduced the anticipated subsidy for the FY 2014 refund payments by $1,098,200 or 7.2 percent of the original subsidy, thereby increasing the amount that will need to be transferred from the TIF and County funds to cover the BABs shortfall. Future changes in subsidies will be determined by Congress as it sets appropriations under federal spending caps, meaning it is unclear at the moment whether and how much additional sequestration will occur in the BABs program.

ACCOUNTABILITY

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 data that follow in this section were reported in November 2014 by the Department of Administrative Service, Division of Finance.

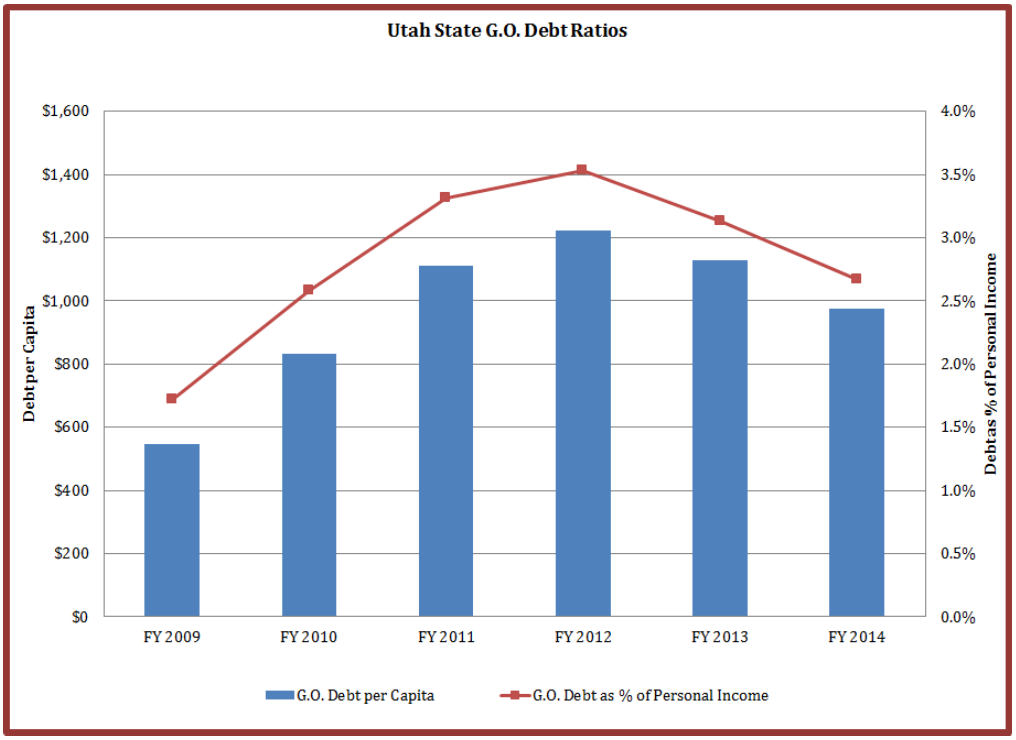
Fair market value of ad valorem taxable property	$271,337,328,737
Fees in lieu of ad valorem taxable property	$11,151,850,405
Total fair market value of taxable property	$282,489,179,142
Constitutional debt limit (1.5%)	$4,237,337,687
Less: currently outstanding general obligation debt (net)	($2,949,124,216)
Estimated additional constitutional debt incurring capacity of the State	$1,288,213,471

The State's statutory debt limit caps general obligation debt to 45 percent of the maximum 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 State Appropriations and Tax Limitation Act and additional general obligation debt incurring capacity of the State under that act as of December 31, 2014 are as follows:

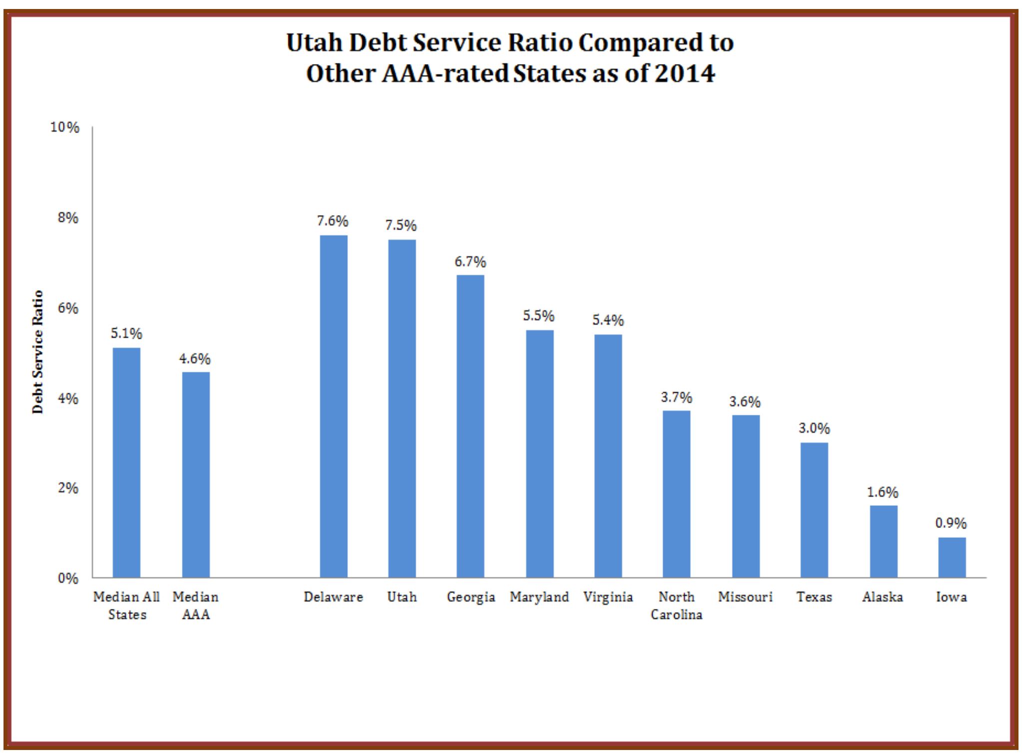
Statutory general obligation debt limit	$1,503,244,552
Less: statutorily applicable general obligation debt (net)	($331,538,354)
Remaining statutory general obligation debt incurring capacity	$1,171,706,197

Debt Ratios

Rating agencies, as well as investors, look at a state's outstanding debt relative to population and personal income. These indicators give insight into a state's indebtedness and the debt burden placed on taxpayers. Per capita debt is calculated by dividing the total outstanding debt by the current population estimate. Debt as a percent of personal income is calculated by dividing current outstanding debt by a state's total personal income. The following chart shows a history of Utah's G.O. debt ratios.



The current estimate of the State's G.O. debt per capita is $977 while Utah's debt as a percentage of personal income is currently 2.67%. Both are down from the peak in FY 2012 which resulted from increased bonding for highway projects including the reconstruction of I-15 in Utah County and the Critical Highway Needs program.



As of 2014 Utah's debt service ratio of 7.5% (ratio of debt service to annual revenues) was amongst the highest of the "AAA" rated states, and higher than the median of all states.

BUDGET DETAIL

The following table shows sources of finance for debt service for 2014 actual; 2015 estimated, adjustments, and revised; and, the 2016 base budget. Such changes include the aforementioned BAB subsidy reduction.

Source of Finance	2014 Actual	2015 Estim	2015 Adjust	2015 Revised	2016 Base
General Fund	54,557,000	54,473,100	64,600	54,537,700	54,535,800
General Fund, One-time	14,154,200	14,154,200	(15,200)	14,139,000	14,139,000
Education Fund	17,228,600	17,202,000	20,400	17,222,400	17,221,800
Education Fund, One-time	-	-	-	-	-
TIF of 2005	343,656,600	326,452,000	14,900	326,466,900	349,220,200
Federal Funds	15,775,900	15,775,900	(17,000)	15,758,900	15,758,900
Dedicated Credits	22,726,442	25,089,100	-	25,089,100	25,089,100
County of 1st Class	24,639,000	16,498,600	300	16,498,900	6,383,600
Transfers	(14,154,200)	(14,154,200)	15,200	(14,139,000)	(14,139,000)
Transfers - Other Funds	(1,051,380)	-	-	-	-
Beginning Nonlapsing	8,429,293	7,652,887	-	7,652,887	7,896,586
Closing Nonlapsing	7,652,887	7,796,386	-	7,896,586	7,931,532
Total	493,614,342	470,939,973	83,200	471,123,372	484,037,518