

## Fiscal Highlights

### Bond Refunding: Saving Money on Debt Service - Clare Tobin Lence

Bonds are used to finance large State initiatives, usually in the form of major infrastructure projects like roads and buildings. There are two main types of bonds: General Obligation (GO) bonds and State Building Ownership Authority (SBOA) bonds, both of which are paid through the Debt Service line item. The total GO bond amount is limited to 1.5% of the total value of taxable property in the State, commonly referred to as the Constitutional Debt Limit. GO bond payments are made through appropriations from the General and Education Funds for buildings and from transportation funds for highways. SBOA bonds are also known as revenue bond debt or lease revenue bonds. Agencies occupying buildings constructed with SBOA bonds make lease payments. These lease payments appear as Dedicated Credits (a funding source in the Debt Service line item), but are technically paid by the State through appropriations to those agencies.

The current status of State debt obligations can be viewed on the Fiscal Health Dashboard: <http://le.utah.gov/fiscalhealth/>.

Over time, and depending on market conditions, the State Treasurer may determine that it is advantageous to refund State bonds. In a refunding, an investment bank purchases the existing bonds, including any interest that will accrue prior to the bonds reaching maturity. The State then holds these funds in U.S. Treasury securities until the bonds mature and are paid. The State refunds bonds to reduce accrued interest and therefore both the total cost of bonding and debt service payments. These savings appear in the budget as reduced expenditures in the Debt Service line item.

Due to the administrative expenses associated with refunding, the Treasurer will only refund bonds if savings are expected to be above \$5-\$10 million. The exact amount saved is not known until all investment bank bids are received and the sale is final. The current market conditions have an impact as well. At the end of March 2015, the Treasurer completed refunding of certain series of GO and SBOA bonds. The sale resulted in significant total savings: \$10,385,500 Net Present Value (NPV) for the GO bonds and \$2,104,500 NPV for the SBOA bonds. This amounts to an annual savings of \$1,130,900 -- \$976,000 for GO and \$154,900 for SBOA -- in debt service payments. In anticipation of this refunding, during the 2015 General Session, the Legislature reduced the appropriation to the debt service line item by \$800,000.

Summary chart of debt service savings as a result of bonds refunded in March 2015:

	<i>GO Bonds</i>	<i>SBOA Bonds</i>
<i>Par Amount (Principal)</i>	\$220,980,000	\$30,015,000
<i>NPV Savings (\$)</i>	\$10,385,492	\$2,104,466
<i>NPV Savings (%)</i>	4.63%	6.77%
<i>Annual Debt Service Savings</i>	\$976,002	\$154,933