Fiscal Highlights

Historical Indebtness of Utah and Political Subdivisions - Brian Wikle

The State of Utah and its political subdivisions incur bond debt primarily to finance large capital projects. This article and the accompanying chart focus on historical indebtedness for General Obligation (GO) bonds issued by the State, bonds issued by school boards (SBG) or in behalf of charter schools (CSCE) that are guaranteed by the State, and lease revenue bonds issued by the State Building Ownership Authority (SBOA) either for governmental activities (GA) or for business-type activities (BA).

GO Bond Debt. The State is legally obligated to use its taxing authority to guarantee that repayment of GO bonds occurs in full and on time. As such GO bonds are effectively risk-free investments for bondholders and interest rates are relatively low. In practice, the Legislature appropriates a sufficient amount each year from existing revenue streams to service GO bond debt; it does not levy an explicit tax for the purpose of making GO debt payments. This debt is subject to the constitutional debt limit that is equal to 1.5 percent of the value of taxable property in the State.

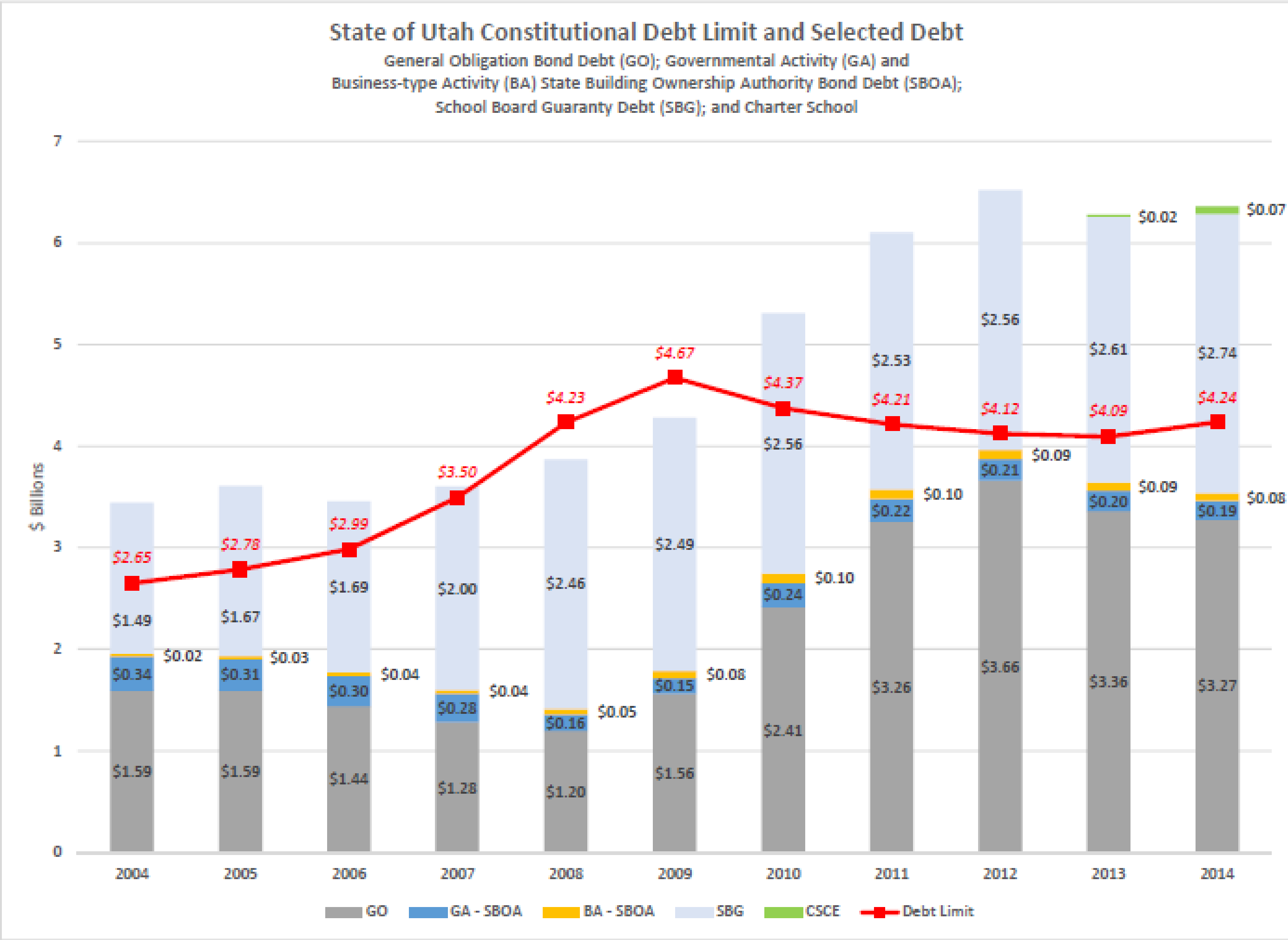
The State's GO bond indebtedness declined gradually through the first several years of the 2000s. GO debt hit a low of $1.20 billion in 2008 just prior to the Great Recession. From 2008 to 2012 GO debt more than tripled reaching a peak of $3.66 billion in 2012. If no additional debt were issued, the State would pay off its GO indebtedness by 2030. However, the 2015 Legislature authorized issuance of up to $470 million for construction of a new prison, and other projects that might be financed through GO bonds are being discussed.

School Board Guaranty and Charter School Bond Debt. In order for local school boards to borrow at more favorable terms, the State allows boards to borrow with its backing. As with GO bonds, the State pledges its full faith and credit to guarantee that qualifying debt issued by school boards will be repaid in full and on time. However, this debt is not subject to the constitutional debt limit. School board debt backed by the State nearly doubled between 2004 and 2014 from $1.49 billion to $2.74 billion.

The first charter school bonds to be guaranteed by the State were issued in 2013. That year the liability to the State was about $20 million, and that figure grew to about $70 million in 2015.

Lease Revenue Bond Debt. As implied by the name, debt service on lease revenue bonds is funded through collection of "lease" payments. The State is not legally obligated to repay this debt if the issuing entity were to face default. Consequently, lease revenue bonds are more risky for investors and the issuing entity pays higher interest rates than issuers of guaranteed debt. However, regardless of the legal distinction, creditors would look to the State to make them whole in the event of a default, and the State would likely step in prior to a default in order to avoid any negative impact on the State's credit rating. It is important to understand that some "lease" payments are really appropriations that flow from either the General or Education Funds to the leasing entity and back to the State; only a portion of "lease" payments are truly from a third party. Total SBOA lease revenue bond debt has been relatively stable for the past decade at around $300 million.

Historical Indebtedness. The following chart shows the State's liability for bond indebtedness for the various debt types described above for fiscal years 2004 through 2014. It also shows the constitutional debt limit that, as explained above, applies only to General Obligation bond debt.


State of Utah Constitutional Debt Limit and Selected Debt
General Obligation Bond Debt (GO); Governmental Activity (GA) and
Business-type Activity (BA) State Building Ownership Authority Bond Debt (SBOA);
School Board Guaranty Debt (SBG); and Charter School
$ Billions
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
GO
GA - SBOA
BA - SBOA
SBG
CSCE
Debt Limit