

Fiscal Highlights

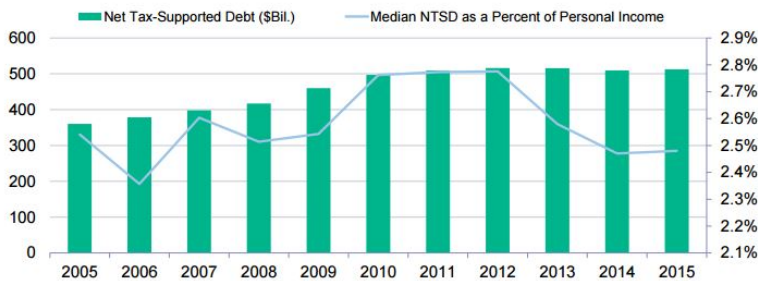
As the Holidays Begin, Let's Discuss Debt Affordability - Steven M. Allred

I recently had the opportunity to attend a National Conference of State Legislatures fiscal seminar for legislators and staff from across the country. I found the presentations to be interesting and informative. On several occasions Utah was recognized as being a fiscally well-managed state. One presenter, from UBS Financial Services, congratulated our state on having the best credit of any state in the nation. Another presenter, from Moody's Investor Service, reviewed states' debt and factors states should consider when analyzing debt affordability. I will highlight her presentation here.

A good debt affordability review should include more than just a state's current debt. It should also include all long-term liabilities (in particular pension and other post-employment benefit liabilities), current commitments (for example, Medicaid), and revenue projections. As shown in the chart below, on a national level state debt has stabilized in dollar value since 2010 and has declined as a percent of personal income since 2012.

State debt is stable and manageable

Debt is flat and debt ratios are declining for US states



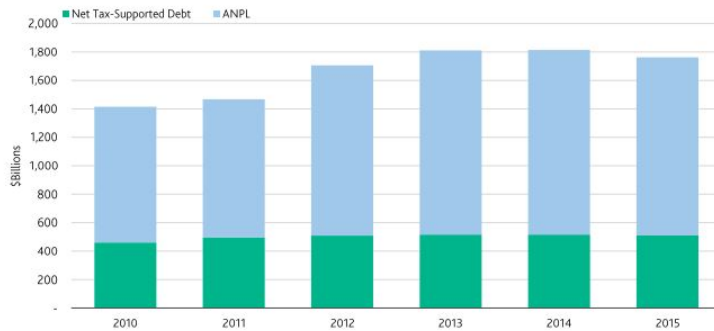
Source: Moody's Investors Service

Nationally in the past fifteen years we're spending less as a percentage of Gross Domestic Product (GDP) on infrastructure than in the previous thirty years. States have become averse to debt due to painful memories of the Great Recession and other commitments being incurred. During the last four years municipal bond rates have been historically low, yet states have not been borrowing to what Moody's believes is the need to maintain infrastructure. While the presenter didn't say this, it is also possible that well-managed states are using pay-as-you-go rather than borrowing in recent years.

Average net pension liability (not debt) is the largest pressure point on states' long-term liabilities:

Pensions are the growing long-term pressure, not debt

Debt and ANPL for US states



Source: State CAFRs, Moody's Investors Service

Interestingly, Utah's net pension liability is lower than our net tax-supported debt. The Division of Finance recently provided the Executive Appropriations Committee with our FY 2016 long-term liabilities from the soon-to-be-released Comprehensive Annual Financial Report (CAFR). A copy of the table is shown below. Across three categories of state government activities, General Obligation Bond debt was \$2.5 billion and net pension liability was \$1.4 billion. Lease/revenue and revenue bond debt was \$2.7 billion (\$1.3 billion of which was student assistance revenue bonds), and total long-term liability summed to \$8.5 billion.

	Long-term Liabilities (Expressed in Thousands)				Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Governmental Activities					
General Obligation Bonds	\$ 2,830,150	\$ —	\$ (331,255)	\$ 2,498,895	\$ 324,910
State Building Ownership Authority					
Lease Revenue Bonds	166,773	93,625	(17,422)	242,976	17,813
Net Unamortized Premiums	122,321	4,405	(33,899)	92,827	26,305
Capital Leases (Note 9)	20,287	5,100	(1,889)	23,498	1,864
Notes Payable	370	—	(31)	339	34
Compensated Absences (Note 1) **	185,792	86,398	(89,483)	182,707	89,800
Claims **	46,931	17,003	(15,842)	48,092	20,565
Pollution Remediation Obligation	5,086	2,296	(981)	6,401	570
Net OPEB Obligation (Note 18) **	4,126	1,110	(1,388)	3,848	—
Settlement Obligations	4,471	—	(4,106)	365	46
Net Pension Liability (Note 17) *	802,543	189,952	—	992,495	—
Total Governmental Long-term Liabilities	\$ 4,188,850	\$ 399,889	\$ (496,296)	\$ 4,092,443	\$ 481,907
Business-type Activities					
Student Assistance Revenue Bonds	\$ 1,509,543	\$ —	\$ (253,517)	\$ 1,256,026	\$ 246,498
State Building Ownership Authority					
Lease Revenue Bonds	73,207	4,525	(5,057)	72,675	5,237
Water Loan Recaptialization Revenue Bonds	46,940	—	(5,025)	41,915	5,235
Net Unamortized Premiums	8,696	230	(3,503)	5,423	1,566
Claims and Uninsured Liabilities	7,587	182,949	(184,810)	5,726	5,726
Notes Payable	1,152,207	—	(230,212)	921,995	921,995
Net Pension Liability (Note 17) *	13,320	4,525	—	17,845	—
Total Business-type Long-term Liabilities	\$ 2,811,500	\$ 192,229	\$ (682,124)	\$ 2,321,605	\$ 1,186,257
Discrete Component Units					
Revenue Bonds	\$ 984,043	\$ 172,282	\$ (91,724)	\$ 1,064,601	\$ 45,729
Net Unamortized Premiums / (Discounts)	13,161	4,130	(1,519)	15,772	596
Capital Leases/Contracts					
Payable (Notes 9 and 10)	165,328	89,099	(26,219)	228,208	30,485
Notes Payable	180,167	226	(58,060)	122,333	65,817
Claims	131,005	554,729	(547,942)	137,792	65,306
Leave/Termination Benefits (Note 1)	133,595	106,539	(97,443)	142,691	90,771
Capital Assets Held for Others	14,135	—	(405)	13,730	403
Net Pension Liability (Note 17) *	271,955	74,740	—	346,695	—
Total Discrete Component Long-term Liabilities	\$ 1,893,389	\$ 1,001,745	\$ (823,312)	\$ 2,071,822	\$ 299,107