Budget Brief – Debt Service

SUMMARY

Debt Service is made up of interest and principal due on the state's bonded indebtedness. The state uses long-term debt to finance large capital expenditures including new construction, major remodeling and highway projects. Dedicated revenue streams such as enterprise fund revenue or dedicated lease payments secure some bonds. Debt service on revenue bonds and general obligation bonds is combined in this appropriation.

ISSUES AND RECOMMENDATIONS

"Pay As You Go" (PAYGo) Benefits

The Analyst recommends that sources of one-time or ongoing funds be applied to the capital budget to re-start the PAYGo plan. The Legislature initiated a PAYGo plan in 2000, but had to use it as a source of funding for state government during the economic downturn. When bonds are issued annually, at some point a significant amount of money is being spent for interest rather than construction. This is a dual drain on resources. Although cash funding for capital projects carries some opportunity cost, the Analyst believes it is better to put money into economically beneficial construction rather than interest payments. Clearly, this cannot be done all the time. Unique and significant projects such as the I-15 reconstruction or the full cost of the Capitol restoration are projects that would be difficult to fund entirely with cash.

For the past three years the Legislature has limited cash appropriations to capital improvement funding, while committing to new facility bonds at the amount of principal retired in the previous fiscal year. Such a plan keeps debt service stable, but makes it difficult for the state to move to a PAYGo system.

Utah's "Triple A" Rating

National rating agencies such as Moody's Investor Service, Fitch Ratings, or Standard and Poor's provide ratings of credit worthiness of all states. At this time only seven states merit a "Triple A" rating from all three agencies. Ratings are complex, and the impact of some factors is not easily predicted. However, Moody's recently issued a report outlining the factors they use. Please see Issue Brief CFAS-05-17 for a review of the Moody's report. Note that rating agencies like to see capital projects funded with a blend of affordable debt and PAYGo sources.

Figure 1: Debt Service - Budget History

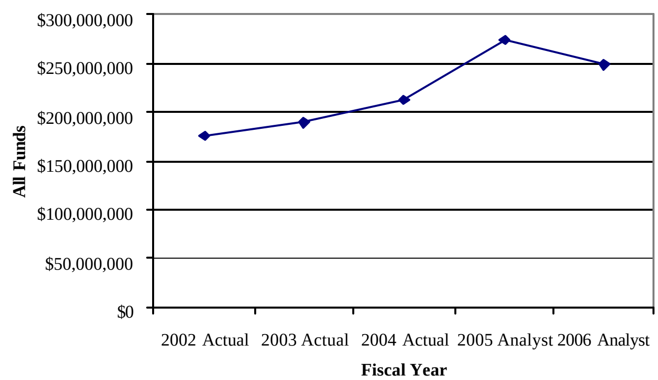
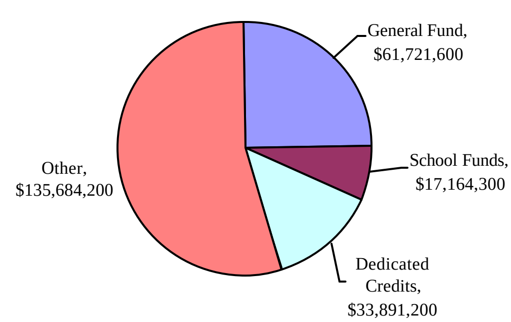
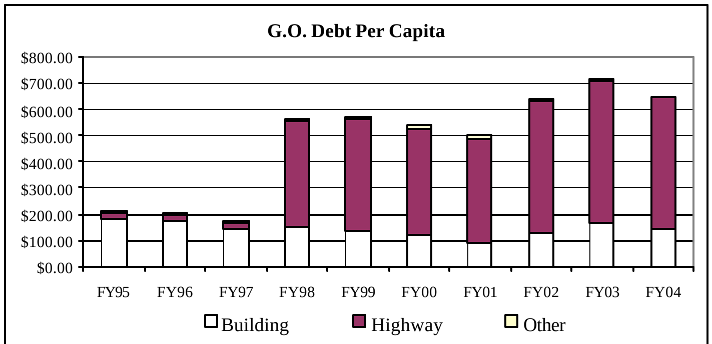


Figure 3: Debt Service - FY 2006 Funding Mix



ACCOUNTABILITY DETAIL

General Obligation Debt per Capita

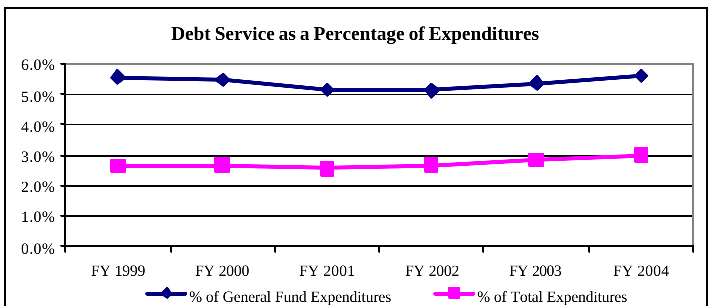


Source: Division of Finance and OLFA

Utah's population growth is primarily internal, meaning the state must contend not only with problems of a growing population, but also the problems brought by a young population that cannot contribute to the tax base. Even considering the state's growth, Utah now finds itself in unprecedented territory in relation to outstanding debt. The state's population has grown by 20 percent since FY 1995; the state's per capita general obligation debt has grown by 200 percent (tripled) in the same amount of time. As the above chart shows, most of this new debt is due to the I-15 reconstruction project.

Utah's long-term tax-supported state debt is 2.8 percent of personal income, and Moody's likes to see that number below six percent.

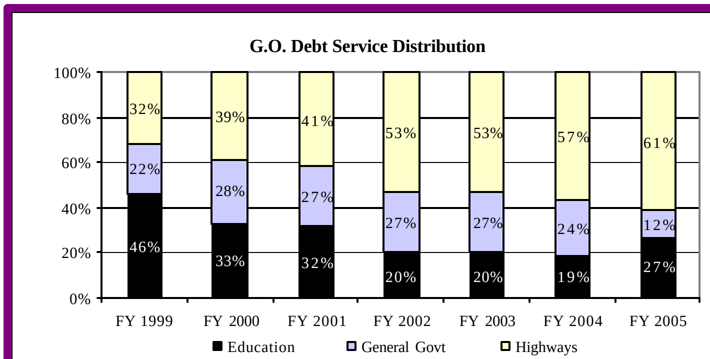
Debt Service as a Percentage of State Expenditures



Source: Division of Finance

Debt service as a percentage of General Fund expenditures increased to 5.6 percent in FY 2004. Moody's likes to see that number below eight percent.

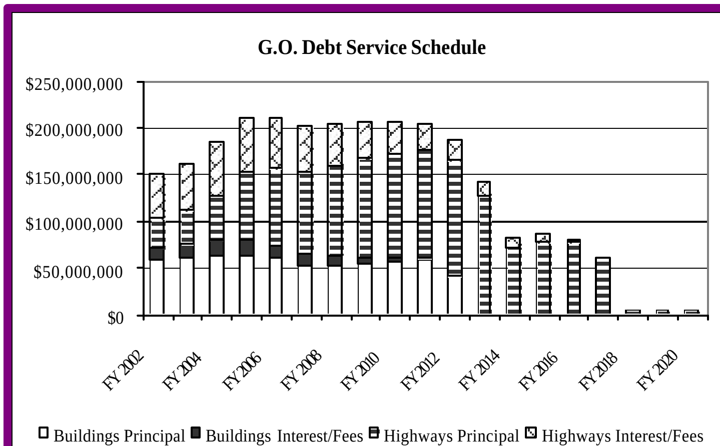
G.O. Debt Service Distribution



Source: GOPB; Division of Finance; OLFA

Over the past seven years the bulk of debt service shifted from buildings to transportation.

Debt Service Schedule of Outstanding G.O. Bonds



In FY 2005 the state will pay off $136.2 million of general obligation bonds ($63.75M for buildings plus $72.5M for highways), and will pay $74.3 million in general obligation interest/fees.

In FY 2006 the state will pay off $137.1 million of general obligation bonds ($59.5M for buildings plus $77.6M for highways), and will pay approximately (depending on prior year authorizations not yet issued) $68.4 million in general obligation interest/fees.

Constitutional and Statutory Bonding Limits

Remaining General Obligation Debt Capacity

	FY 2002	FY 2003	FY 2004	FY 2005*
Constitutional	$949,415,000	$847,884,000	$1,059,305,000	$1,050,042,000
Statutory	$340,974,000	$136,431,000	$227,293,000	$243,353,200

* As of October 2004

At the close of FY 2004, the state had $1.589 billion in G.O. debt. Please see COBI for more detail.

BUDGET DETAIL

This appropriation includes debt service on general obligation bonds and revenue bonds. Although total debt service payments have been increasing, debt service for general obligation bonds has leveled off at between approximately $202 million to $210 million per year. Revenue bond debt service payments will decrease by $30 million in FY 2006 due to paying off the SLOC/U of U student housing project.

Budget Recommendation

The Analyst recommends a total FY 2006 Debt Service appropriation of $248,461,300. This represents an increase over FY 2005 of $1,022,200 from the Centennial Highway Fund and $5,014,100 from the Public Transportation System sales tax. Because of reductions to buildings (facilities) principal and interest payments, the required General Fund amount is $1,841,900 lower than the prior year base. It is likely the Executive Appropriations Committee will reallocate these General Funds.

Of the $248,461,300 total, $34,114,200 (comprised of almost entirely of Dedicated Credits) will go toward paying off revenue bonds, and $214,347,100 will pay off general obligation bonds (pending reallocation of the $1,841,900 mentioned above).

LEGISLATIVE ACTION

This section is a summary of what actions might be taken if the Legislature wishes to adopt the recommendations of this brief. The Analyst recommends the Legislature consider adopting:

1. A total appropriation of $248,461,300. See the table below for detail by funding source.

BUDGET DETAIL TABLE

Debt Service

Sources of Finance	FY 2004 Actual	FY 2005 Appropriated	Changes	FY 2005 Revised	Changes	FY 2006 Analyst*
General Fund	56,833,700	61,721,600	0	61,721,600	0	61,721,600
General Fund, One-time	1,530,600	0	0	0	0	0
Uniform School Fund	17,164,300	17,164,300	0	17,164,300	0	17,164,300
Centennial Highway Fund	97,724,900	125,371,200	0	125,371,200	1,022,200	126,393,400
Centennial Highway Fund, One-time	1,796,800	0	0	0	0	0
Dedicated Credits Revenue	27,714,100	62,881,500	749,600	63,631,100	(29,739,900)	33,891,200
TFR - Public Transp. System Tax	2,220,700	2,190,300	0	2,190,300	5,014,100	7,204,400
Transfers	3,812,100	0	0	0	0	0
Beginning Nonlapsing	16,004,400	7,126,000	5,715,000	12,841,000	(3,700,000)	9,141,000
Closing Nonlapsing	(12,841,000)	(7,126,000)	(2,015,000)	(9,141,000)	2,086,400	(7,054,600)
Total	$211,960,600	$269,328,900	$4,449,600	$273,778,500	($25,317,200)	$248,461,300
Categories of Expenditure						
Current Expense	211,960,600	269,328,900	4,449,600	273,778,500	(25,317,200)	248,461,300
Total	$211,960,600	$269,328,900	$4,449,600	$273,778,500	($25,317,200)	$248,461,300
Other Data						

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.