

Budget Brief – Debt Service

NUMBER CFAS-06-24

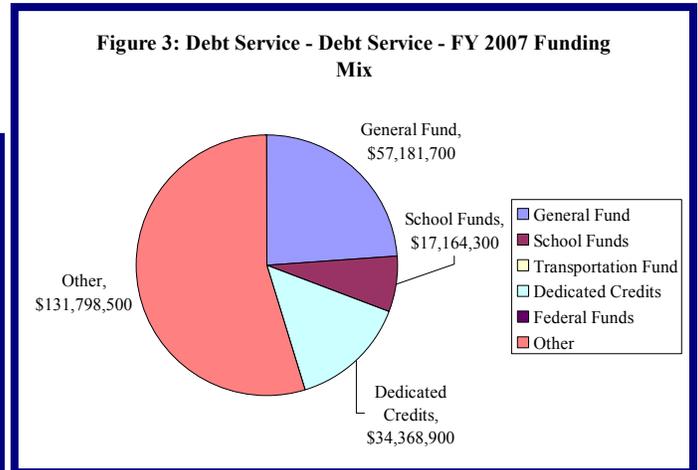
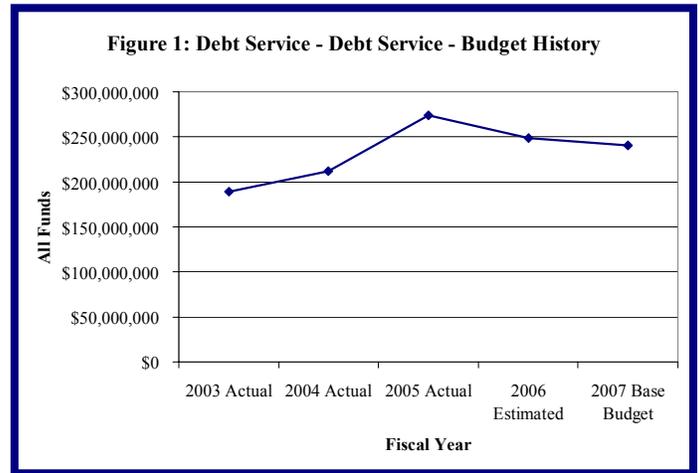
SUMMARY

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

Fund Reallocation to Capital Developments Line Item

Since the Legislature has reduced bonding for buildings in the past year, and assuming the Legislature will not bond for buildings in the 2006 General Session, the required debt service is decreasing. The Analyst recommends the Legislature reallocate debt service savings to the Capital Developments line item where they can be used to pay cash for new buildings. The recommended amounts to reallocate are \$6,151,800 as a one-time FY 2006 supplemental, and \$5,500,000 as an ongoing FY 2007 change. This would leave a closing balance of \$2.2 million in case of unexpected needs. The FY 2007 amount will change if the Legislature authorizes bonds in the 2006 General Session. Please refer to the following chart for more detail.



G.O. Debt Service for Buildings			
Amounts Recommended for Transfer to Capital Development Line Item			
	FY 2005	FY 2006	FY 2007*
Required Debt Service	\$81,534,000	\$74,118,000	\$66,466,200
Prior year GF Base	\$56,833,700	\$61,721,600	\$57,181,700
General Fund Adjust	\$4,887,900	(\$4,539,900)	
General Fund 1-Time		\$2,698,000	
GF for Rev Bonds	(\$1,144,000)	(\$223,000)	(\$223,000)
School Funds	\$17,164,300	\$17,164,300	\$17,164,300
School Funds 1-Time	\$1,682,400		
Other Sources	\$3,737,800		
Begin Nonlapsing	\$1,820,700	\$3,448,800	
Closing Nonlapsing	(\$3,448,800)		(\$2,156,800)
Total Appropriation	\$81,534,000	\$80,269,800	\$71,966,200
Approp - Required	\$0	\$6,151,800	\$5,500,000
Recommend Transfer to Capital Develop		\$6,151,800	\$5,500,000

*Assumes no bonding authorized in the 2006 General Session.

Debt Service for Highway Bonds

In FY 2007 the required debt service for highway *principal* will increase by \$6,216,400. However, the required amount for highway *interest* will decrease by \$4,633,000. Therefore the Analyst recommends an increase in the appropriation from the Centennial Highway Fund (CHF) of \$1,583,400. This will make the total FY07 appropriation from the CHF \$127,976,800.

Funding Source Switch

The base budget includes an appropriation of \$17,164,300 from the Uniform School Fund to service a portion of the debt for higher education buildings. Technically this appropriation should be from Income Tax revenues. The Analyst recommends the Legislature authorize a change in funding source.

“Pay As You Go” (PAYGo) Benefits

The Analyst recommends that sources of one-time or ongoing funds be applied to the capital budget to continue the PAYGo plan. The 2005 Legislature re-started a PAYGo plan for the first time since 2000, and received positive comments from Standard & Poor’s: “The state [continues] in its tradition of cash funding a significant portion of its capital projects—a practice that serves as an additional reserve fund for the state, since it could revert to bonding to fund these projects” (December 21, 2005 Research Document).

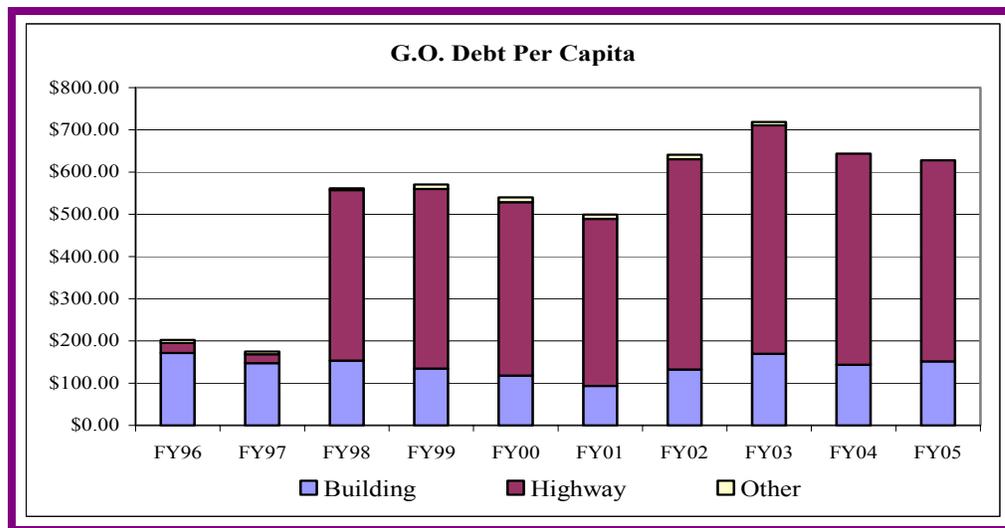
Utah’s “Triple A” Rating

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 six states merit a “Triple A” rating from all three agencies: Delaware, Georgia, Maryland, Missouri, Utah, and Virginia.

Utah maintains an “AAA” rating for many reasons, since ratings factors are complex, but in large part because of the commitment to good management shown by both the Executive and Legislative Branches. Utah’s track record showing its willingness to manage its debt seems to be as important as its ability to pay its debt.

ACCOUNTABILITY DETAIL

General Obligation Debt Per Capita

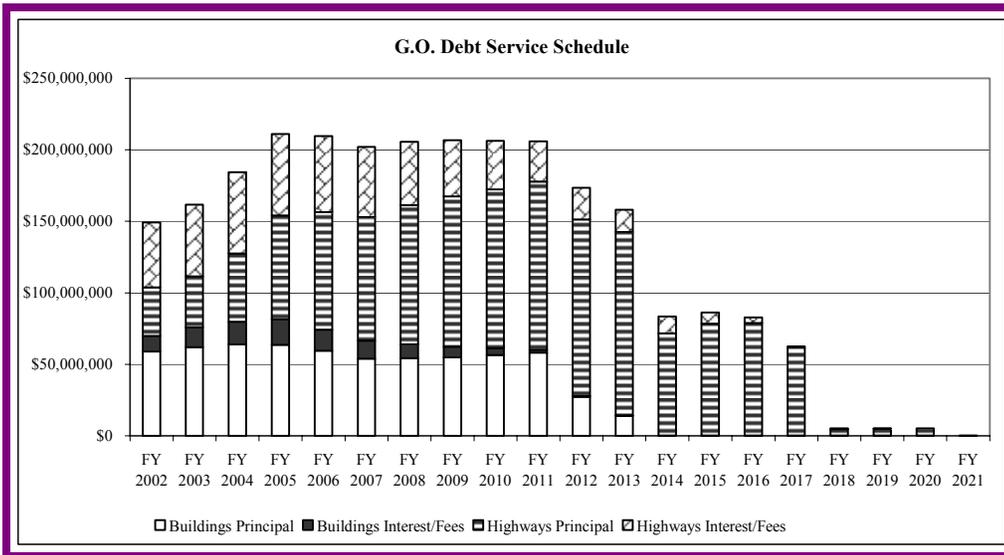


Even considering the state’s growth, Utah now finds itself in unprecedented territory in relation to outstanding debt. The state’s population has grown by 20 percent since FY 1995; the state’s per capita general obligation debt has grown by 200 percent (tripled) in the same amount of time. As the above chart shows, most of this new debt is due to the I-15 reconstruction project.

Constitutional and Statutory Bonding Limits

Remaining General Obligation Debt Capacity				
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Constitutional	\$949,415,000	\$847,884,000	\$1,059,305,000	\$1,196,499,000
Statutory	\$340,974,000	\$136,431,000	\$227,293,000	\$249,751,600

Debt Service Schedule of Outstanding G.O. Bonds



In FY 2006 the state will pay off \$141.9 million of general obligation bonds (\$59.5M for buildings plus \$82.4M for highways), and will pay \$67.7 million in general obligation interest/fees. In FY 2007 the state will pay off \$140.5 million of general obligation bonds (\$54M for buildings plus \$86.5M for highways), and will pay approximately (depending on prior year authorizations not yet issued) \$61.5 million in general obligation interest/fees.

BUDGET DETAIL

This appropriation includes debt service on general obligation bonds and revenue bonds. Status quo debt service for general obligation bonds has leveled off at between \$202 million to \$210 million per year until FY 2011. However, future debt service payments will depend on future bond authorizations.

Budget Recommendation

The Analyst recommends a total FY 2007 Debt Service base appropriation of \$240,513,400. This represents the ongoing portion of the FY 2006 appropriation.

The Analyst also recommends a reallocation of \$6,151,800 in FY 2006 General Funds to the Capital Developments line item, a reallocation of \$5,500,000 in FY 2007 General Funds to the Capital Developments line item, and an increased appropriation of \$1,583,400 from the Centennial Highway Fund to the Debt Service line item. The Analyst further recommends switching \$17,164,300 currently appropriated from the Uniform School Fund to Income Tax revenues. None of these recommendations have yet been built into the budget pending legislative approval.

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 \$240,513,400 for the Debt Service line item, with \$74,346,000 from state funds.
2. A reallocation of \$6,151,800 in FY 2006 General Funds to the Capital Developments line item.
3. A reallocation of \$5,500,000 in FY 2007 ongoing General Funds to the Capital Developments line item.
4. An increased appropriation of \$1,583,400 from the Centennial Highway Fund to the Debt Service line item.
5. A switch of \$17,164,300 currently appropriated from the Uniform School Fund to be appropriated instead from Income Tax revenues.

BUDGET DETAIL TABLE

Debt Service - Debt Service						
	FY 2005	FY 2006		FY 2006		FY 2007*
Sources of Finance	Actual	Appropriated	Changes	Revised	Changes	Base Budget
General Fund	61,721,600	57,181,700	0	57,181,700	0	57,181,700
General Fund, One-time	0	2,698,000	0	2,698,000	(2,698,000)	0
Uniform School Fund	17,164,300	17,164,300	0	17,164,300	0	17,164,300
Uniform School Fund, One-time	1,682,400	0	0	0	0	0
Income Tax	0	0	0	0	0	0
Centennial Highway Fund	125,371,200	126,393,400	0	126,393,400	0	126,393,400
Dedicated Credits Revenue	58,508,100	33,891,200	(886,700)	33,004,500	1,364,400	34,368,900
TFR - Public Transp. System Tax	2,190,300	7,204,400	0	7,204,400	0	7,204,400
Transfers	6,834,600	0	0	0	0	0
Beginning Nonlapsing	12,841,000	9,141,000	3,494,900	12,635,900	(5,295,200)	7,340,700
Closing Nonlapsing	(12,635,900)	(7,054,600)	(286,100)	(7,340,700)	(1,799,300)	(9,140,000)
Total	\$273,677,600	\$246,619,400	\$2,322,100	\$248,941,500	(\$8,428,100)	\$240,513,400
Programs						
Debt Service	273,677,600	246,619,400	2,322,100	248,941,500	(8,428,100)	240,513,400
Total	\$273,677,600	\$246,619,400	\$2,322,100	\$248,941,500	(\$8,428,100)	\$240,513,400
Categories of Expenditure						
Current Expense	273,677,600	246,619,400	2,322,100	248,941,500	(8,428,100)	240,513,400
Total	\$273,677,600	\$246,619,400	\$2,322,100	\$248,941,500	(\$8,428,100)	\$240,513,400

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