Budget Brief – Debt Service

NUMBER CFGO-08-27

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 line item.

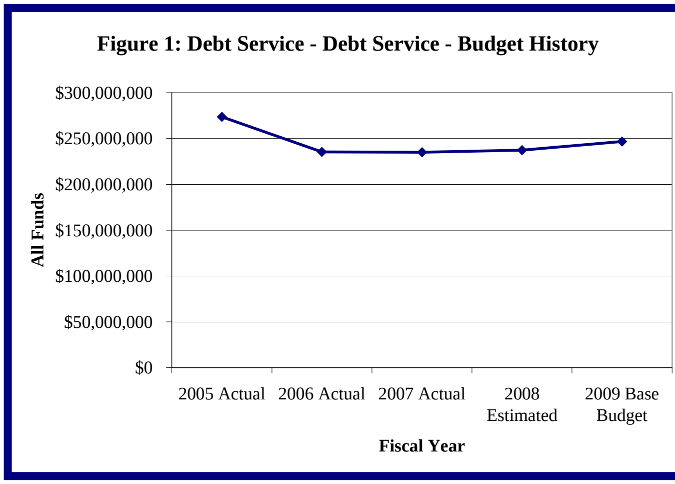
ISSUES AND RECOMMENDATIONS

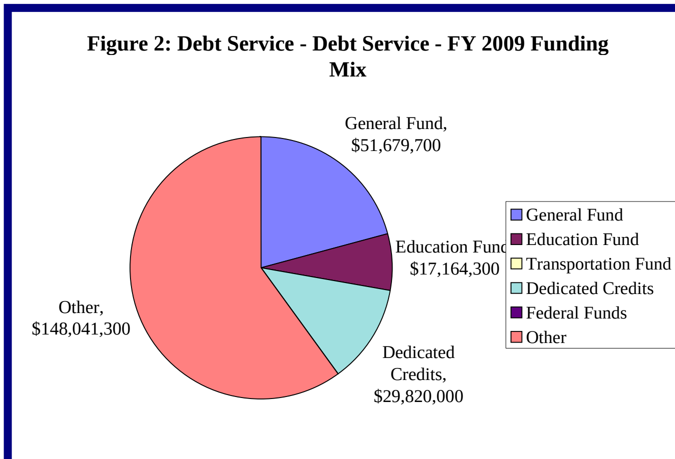
Outstanding General Obligation (G.O.) Bonds

Outstanding GO Bond Indebtedness

Series	Purpose	Original Amount	Final Maturity Date	Outstanding as of Jan. 4, 2008
1997E*	Highways	$135,000,000	July 1, 2007	$0
1997F*	Highways	$205,000,000	July 1, 2007	$0
1998A	Highways	$265,000,000	July 1, 2008	$18,725,000
2001B*	Highways	$348,000,000	July 1, 2009	$73,775,000
2002A*	Various	$281,200,000	July 1, 2011	$23,600,000
2002B	Refunding	$253,100,000	July 1, 2012	$250,580,000
2003A*	Various	$407,405,000	July 1, 2013	$293,425,000
2004A	Refunding	$314,775,000	July 1, 2016	$314,775,000
2004B	Various	$140,635,000	July 1, 2019	$111,630,000
2007A	Various	$75,000,000	July 1, 2014	$75,000,000
Subtotal Prinicipal Amount of GO Debt				$1,161,510,000
Plus Unamortized Original Issue Bond Premiums				$56,872,600
Less Deferred Amount on Refunding				($14,467,100)
Total GO Debt				$1,203,915,500

*Portions refunded in subsequent bond issues





This schedule does not include bonds authorized by the Legislature but not yet issued, such as $1.06 billion for highways, $26.3 million for Salt Lake County highways, $110 million for USTAR, $4.6 million for a veterans' nursing home, and other miscellaneous projects.

Can bonds be paid off early?

Under our current schedule, Utah will pay off one bond (series 1998A) on July 1, 2008 and another (2001B) on July 1, 2009. Any bond can be legally defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding transaction (which the state has already taken advantage of during times of low interest rates), a defeasance can also be accomplished with cash. Doing so would involve setting aside enough cash in an escrow account to meet all payments of principal and interest on the outstanding bonds as they become due, thereby instantly removing the debt from the balance sheet. See Issue Brief CFGO-08-14 for more information.

State Fund Appropriations to Debt Service

General Fund (GF) and Education Funds (EF) are typically used to pay the debt service on the building portions of the General Obligation bonds. Centennial Highway Funds (CHF) are used to pay the debt service on the highway portions of the bonds. In FY 2008 more General Fund ($4.87M)was appropriated than is needed for the debt service on buildings and less CHF ($8.5M) was appropriated than needed creating a deficit position of $3.65 million – see chart at right.

	FY 2008	FY 2009
GF/EF Approp for Buildings	68,621,000	68,621,000
CHF Approp for Highways	134,926,800	134,926,800
Total	203,547,800	203,547,800
Debt Service for Buildings	63,755,300	62,003,500
Debt Service for Highways	143,447,200	154,658,800
Total	207,202,500	216,662,300
GF/EF more/ (less) than Required	4,865,700	6,617,500
CHF more/ (less) than Required	(8,520,400)	(19,732,000)
Total	(3,654,700)	(13,114,500)

The FY 2009 base budget for debt service remained the same as FY 2008, however, the actual requirements for buildings decreased slightly to $62.0 million and the requirements for highways increased to $154.7 million. This results in a base appropriation of $6.6 million too much General Fund and of $19.7 million too little CHF, which creates a $13.1 million deficit position.

To rectify these deficit positions, the Analyst recommends that $3,650,000 be appropriated from the CHF in FY 2008 and $13,000,000 be appropriated from the CHF in FY 2009.

Non-lapsing Balance

The Debt Service line item finished FY 2007 with a $23.5 million non-lapsing balance. The chart at right shows the seven year history of the non-lapsing balance. Legislative Leadership is currently examining the balances of the non-lapsing funds in the State and will make recommendations concerning the reallocation of these funds.

	Non-lapsing Balance
FY 2001	11,474,700
FY 2002	22,882,100
FY 2003	16,004,400
FY 2004	12,841,000
FY 2005	12,635,900
FY 2006	20,722,200
FY 2007	23,534,200

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: Delaware, Georgia, Maryland, Missouri, North Carolina, 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 of showing a willingness to manage its debt seems to be as important as its ability to pay its debt.

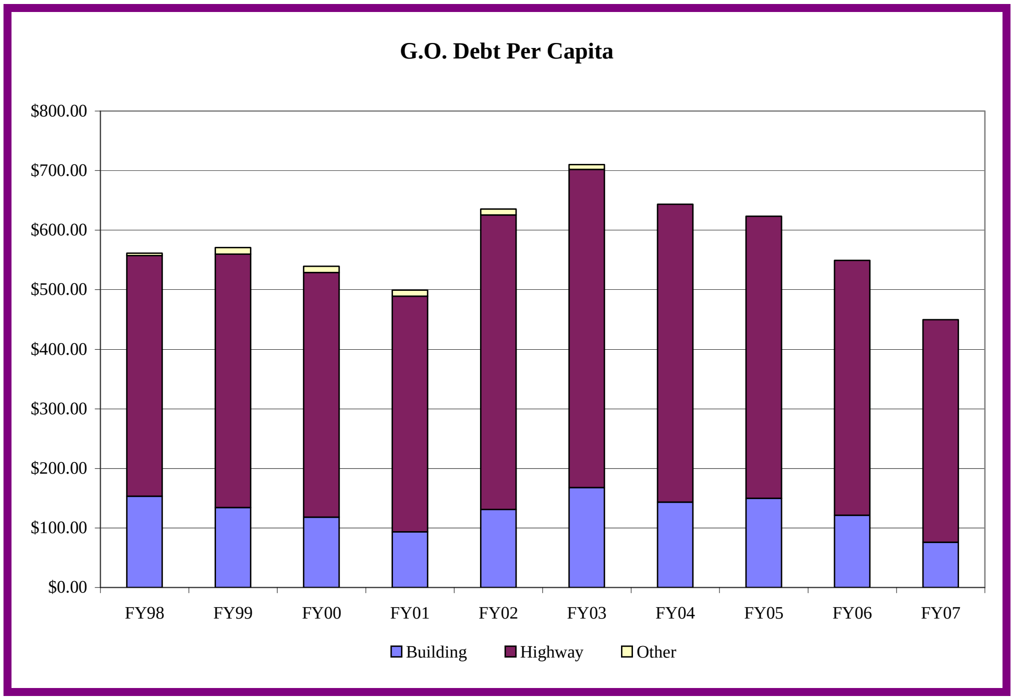
ACCOUNTABILITY DETAIL

Constitutional and Statutory Bonding Capacity

Remaining General Obligation Debt Capacity	FY 2004	FY 2005	FY 2006	FY 2007
Constitutional	$1,059,305,000	$1,196,499,000	$1,547,896,900	$2,211,169,800
Statutory	$227,293,000	$249,751,600	$385,958,100	$531,055,800

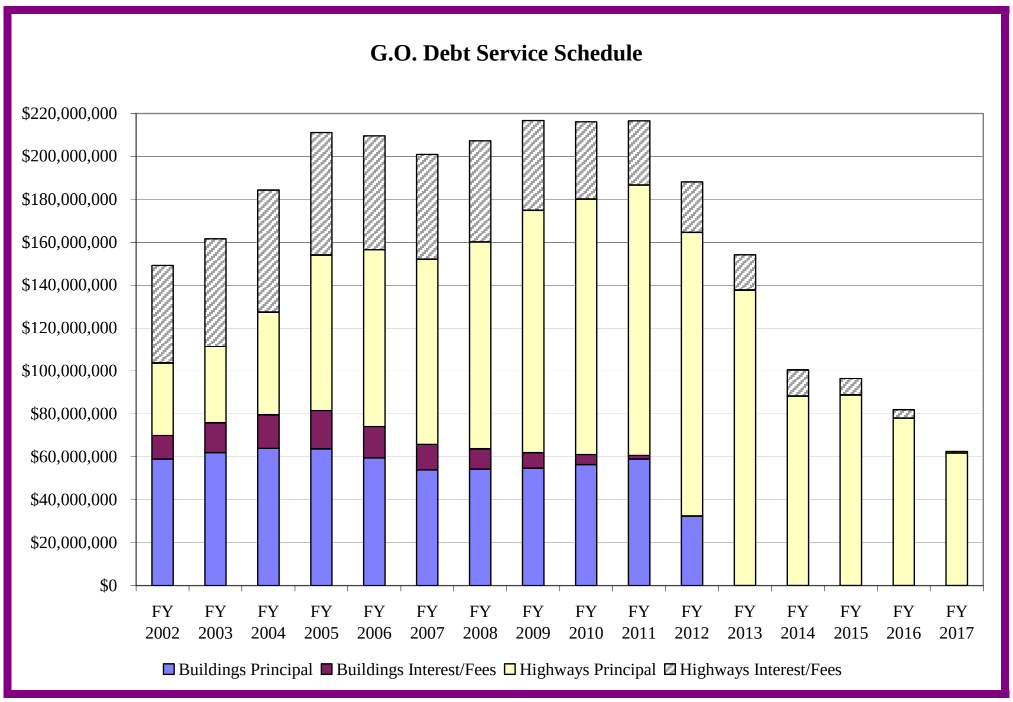
The state's constitutional debt limit caps total general obligation debt at 1.5 percent of the value of the state's taxable property. The state's statutory debt limit further caps general obligation debt to 45 percent of the allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation.

General Obligation Debt Per Capita



While the state's population has grown by 25.4 percent in the last ten years (since FY 1998), the state's per capita general obligation debt has decreased 19.9 percent. It should be noted that prior to FY 1998 the state's general obligation debt hovered around $400 million and the per capita general obligation debt was around $200 per Utahan. The growth in general obligation debt in FY 1998 was due to the I-15 reconstruction project.

Debt Service Schedule of Outstanding G.O. Bonds



In FY 2008 the state will pay off $150.7 million of general obligation bonds ($54.3 million for buildings plus $96.4 million for highways), and will pay $60.7 million in general obligation interest/fees. In FY 2009 the state will pay off $167.7 million of general obligation bonds ($54.8 million for buildings plus $112.9M for highways), and will pay $49 million in general obligation interest/fees. This chart does not reflect bonds authorized by the Legislature, but not yet issued.

BUDGET DETAIL

During the 2006 General Session the Legislature approved a technical change of appropriating from the Education Fund (mostly income taxes) rather than from the Uniform School Fund. The Uniform School Fund should be used solely for public education, while the Education Fund can be used for higher education.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A total FY 2009 base appropriation of $246,705,300 for the Debt Service line item.
2. A onetime FY 2008 appropriation of $3,650,000 from the Centennial Highway Fund to pay the increased debt service on highways bonds.
3. An ongoing FY 2009 appropriation of $13,000,000 from the Centennial Highway Fund to pay the increased debt service on highways bonds.

BUDGET DETAIL TABLE

Debt Service - Debt Service

Sources of Finance	FY 2007 Actual	FY 2008 Appropriated	Changes	FY 2008 Revised	Changes	FY 2009* Base Budget
General Fund	51,679,700	51,679,700	0	51,679,700	0	51,679,700
Education Fund	17,164,300	17,164,300	0	17,164,300	0	17,164,300
Centennial Highway Fund	127,976,800	127,976,800	0	127,976,800	0	127,976,800
Dedicated Credits Revenue	30,207,800	34,578,800	(4,675,200)	29,903,600	(83,600)	29,820,000
Dedicated Credits - GO Bonds	15,200	0	0	0	0	0
TFR - Public Transp. System Tax	7,204,400	6,950,000	0	6,950,000	0	6,950,000
Transfers	3,574,200	0	0	0	0	0
Beginning Nonlapsing	20,722,200	23,360,700	173,500	23,534,200	(3,654,700)	19,879,500
Closing Nonlapsing	(23,534,200)	(22,431,900)	2,552,400	(19,879,500)	13,114,500	(6,765,000)
Total	$235,010,400	$239,278,400	($1,949,300)	$237,329,100	$9,376,200	$246,705,300
Programs						
GO Bonds Highways Principal	86,377,500	96,855,900	(460,900)	96,395,000	16,535,000	112,930,000
GO Bonds Highways Interest/Fees	48,669,300	43,514,900	3,537,300	47,052,200	(5,323,400)	41,728,800
GO Bonds Buildings Principal	53,960,000	54,265,000	(252,000)	54,013,000	0	54,013,000
GO Bonds Buildings Interest/Fees	11,895,900	9,840,800	(98,500)	9,742,300	(1,751,800)	7,990,500
Revenue Bonds Principal	19,642,200	18,806,100	(1,924,000)	16,882,100	746,500	17,628,600
Revenue Bonds Interest Fees	14,465,500	15,995,700	(2,751,200)	13,244,500	(830,100)	12,414,400
Total	$235,010,400	$239,278,400	($1,949,300)	$237,329,100	$9,376,200	$246,705,300
Categories of Expenditure						
Current Expense	235,010,400	239,278,400	(1,949,300)	237,329,100	9,376,200	246,705,300
Total	$235,010,400	$239,278,400	($1,949,300)	$237,329,100	$9,376,200	$246,705,300

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