

DEBT SERVICE

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
STAFF: RICHARD AMON

BUDGET BRIEF

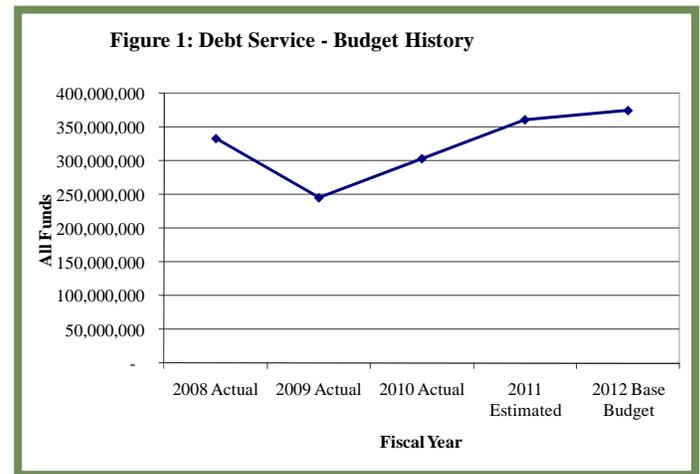
SUMMARY

Debt Service is made up of interest and principal due on the state's bonded indebtedness. The state uses bonds to finance some large capital expenditures including new facility 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. 1, 2011
2002A	Hwys/Bldgs	\$281,200,000	July 1, 2011	\$6,325,000
2002B	Refunding	\$253,100,000	July 1, 2012	\$116,620,000
2003A	Hwys/Bldgs	\$407,405,000	July 1, 2013	\$122,975,000
2004A	Refunding	\$314,775,000	July 1, 2016	\$275,465,000
2004B	Hwys/Bldgs	\$140,635,000	July 1, 2015	\$46,000,000
2007A	Hwys/Bldgs	\$75,000,000	July 1, 2014	\$47,265,000
2009A	Highways	\$394,360,000	July 1, 2019	\$221,045,000
2009B	Buildings	\$104,450,000	July 1, 2015	\$104,000,000
2009C	Hwys/Bldgs	\$490,410,000	July 1, 2018	\$490,410,000
2009D	Highways	\$491,760,000	July 1, 2024	\$491,760,000
2010A	Hwys/Bldgs	\$412,990,000	July 1, 2017	\$412,990,000
2010B	Highways	\$621,980,000	July 1, 2025	\$621,980,000
2010C	Refunding	\$172,055,000	July 1, 2019	\$172,055,000
				\$3,128,890,000



This schedule does not include bonds authorized by the Legislature but not yet issued: \$1,013 million for I-15 and Mountain View Corridor projects and \$128 million for Critical Highway Needs projects.

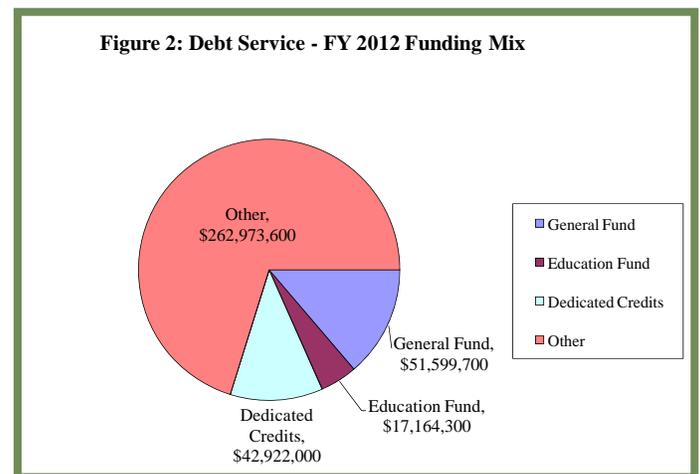
Can bonds be paid off early?

Under our current schedule, Utah will pay off one bond (series 2002A) on July 1, 2011. 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 removing the debt from the balance sheet. (See *Debt Defeasance* Issue Brief for more information.)

State Debt Obligations

While General Obligation debt (\$3.3 billion) is the most important debt held by the state, there exist several other types of debt obligations that amount to an additional \$7 billion of debt outstanding indirectly related to the state. These obligations include public school debt, higher education revenue bonds, housing authority bonds, and student loan bonds. (See *State Debt Obligations* Issue Brief for more info.)



Utah's "Triple A" Rating

The three national rating agencies (Moody's, Fitch, and Standard and Poor's) provide ratings of credit worthiness of all states. At this time only eight states merit a "Triple A" rating from all three agencies: Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Utah, and Virginia.

Unissued Bond Authorizations

The state currently has two bond authorizations that could be removed from statute and one bond authorization that should be amended. The Analyst recommends the Legislature consider making these changes in the next bond bill. (See *Unissued Bond Authorizations* Issue Brief for more information.)

Non-lapsing Balance

The Debt Service line item finished FY 2010 with a \$20.4 million non-lapsing balance. Of that amount, \$15.5 million is committed to pay future lease revenue bonds (most of it capitalized interest for the U of U Huntsman Hospital) and \$4.8 million is budgeted for FY 2011 debt service. The Legislature decreased the nonlapsing balance by \$12 million in FY 2009 and replaced \$7 million of ongoing General Fund with one time nonlapsing balances of \$7 million.

Non-lapsing Balance	
FY 2007	23,534,200
FY 2008	26,569,300
FY 2009	10,980,300
FY 2010	20,391,600
FY 2011 Est.	9,945,400
FY 2012 Est.	7,516,900

Build America Bonds Subsidy

The state issued five bond series using the federal Build America Bonds (BAB) program which provides an IRS refund subsidy in return for selling taxable bonds at higher interest rates. The BAB program saved the State \$55 million over 15 years on \$2,017 million of bonds. Recently, bond rating agencies provided direction to issuers using the BAB program to budget debt service gross of federal subsidies. This direction indicates a certain level of risk with the BAB program. In order to meet this recommendation the State will need to change the way it appropriates debt service funds from debt service net of the federal subsidy to gross debt service. The analyst therefore recommends an additional appropriation of \$15,252,400 from the General Fund to debt service. (See *Build America Bonds Federal Subsidy* Issue Brief for more info.)

Transportation Bonding

The Department of Transportation (UDOT) proposes transferring more than \$200 million from the Critical Highway Needs Fund (CHNF) to the Transportation Investment Fund (TIF) in FY 2011. UDOT created the capacity to transfer funds through issuing bonds from the Legislative authorization for the CHNF. While UDOT has the ability to transfer money between funds, this transaction would require large transfers from the TIF to the CHNF for the next several years and increases the debt service beyond current revenues in the CHNF. (See *Transportation Bonding* Issue Brief for more info.)

ACCOUNTABILITY DETAIL

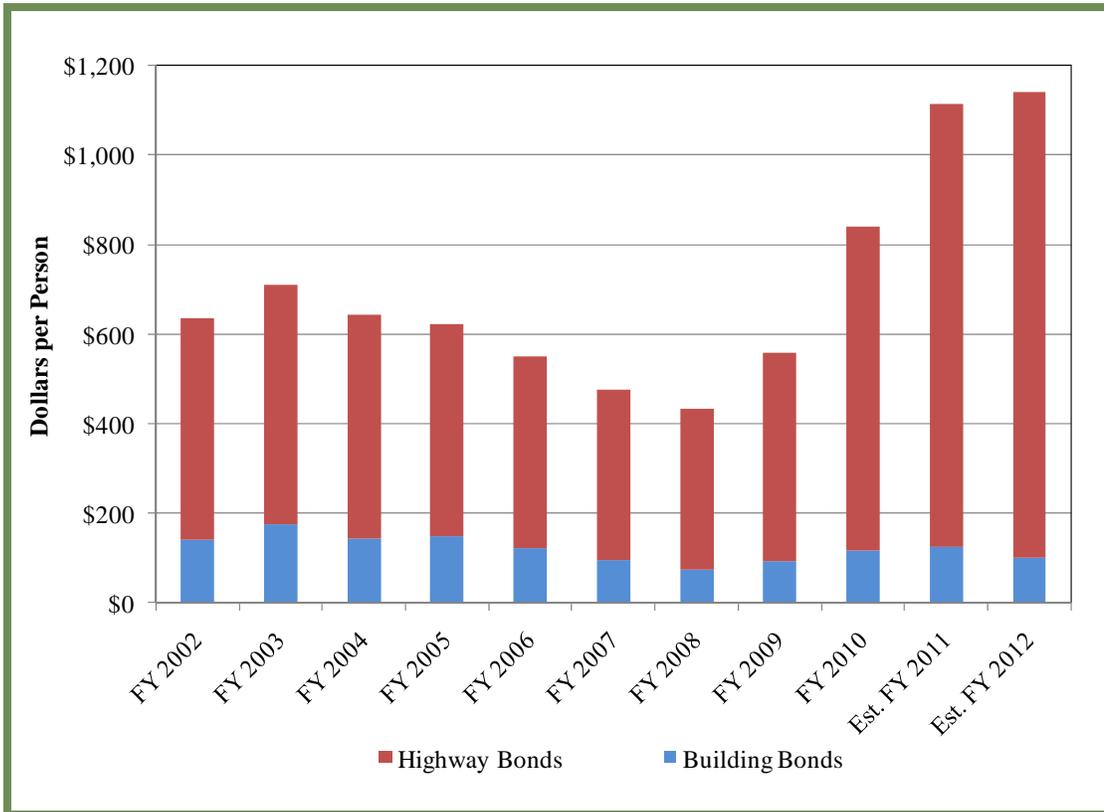
Constitutional and Statutory Bonding Capacity

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.

	Remaining General Obligation Debt Capacity (millions)				
	June 30, 2007	June 30, 2008	June 30, 2009	June 30, 2010	January 1, 2011
Constitutional	\$2,211	\$3,035	\$3,110	\$1,962	\$1,097
Statutory	\$531	\$680	\$648	\$646	\$752

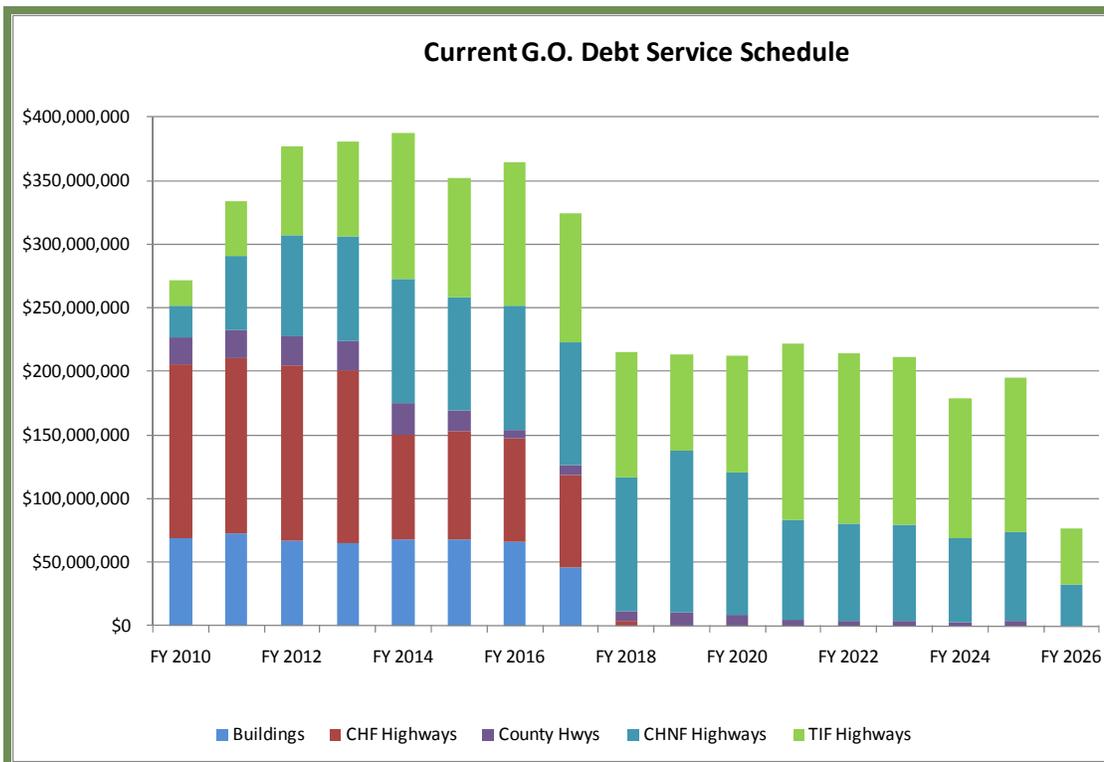
General Obligation Debt Per Capita

The FY 2012 estimate of the State's general obligation per capita debt is \$1,142. Increased bonding for highway projects including the reconstruction of I-15 in Utah County and the Critical Highway Needs program increased debt obligations in recent years. The previous peak in general obligation debt per capita occurred in FY 2003 at \$710 as a result of the I-15 reconstruction project in Salt Lake County.



Debt Service Schedule of Outstanding G.O. Bonds

In FY 2012 the state will pay off \$251.1 million of bond principal and pay \$125.7 million of interest on general obligation bond debt. These numbers do not include the Build America Bonds federal subsidy of \$15.3 million. The chart below displays the current debt service schedule, but does not reflect unissued bonds authorized by the Legislature.



BUDGET DETAIL

The FY 2012 base budget of \$51,599,700 General Fund and \$17,164,300 Education Fund is required in FY 2012 to meet debt service obligations. The Analyst does not recommend reducing these state funds.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A FY 2012 increase of \$15,595,300 and a FY 2011 decrease of \$10,213,100 from the Transportation Investment Fund to pay debt service requirements.
2. A FY 2012 increase of \$14,177,500 and a FY 2011 decrease of \$6,359,300 from the Critical Highway Needs Fund to pay debt service requirements.
3. A FY 2011 increase of \$6,387,200 from Dedicated Credits to pay debt service requirements.
4. A FY 2011 adjustment to the beginning and closing balances of \$13,431,500 and (\$2,984,400) respectively to account for FY 2010 actuals and updated debt service schedules.
5. A FY 2012 increase of \$15,252,400 and a FY 2011 increase of \$13,393,800 from the General Fund to meet the bond rating agencies' recommendation to budget debt service net of Build America Bond subsidies and a corresponding transfer from debt service nonlapsing balances back to the General Fund to hold the General Fund harmless.

BUDGET DETAIL TABLE

FY 2011 and 2012 Adjustments for Debt Service							
	2010 G.S. Appropriation		2011 General Session Proposed Appropriations				
	FY 2010	FY 2011	FY 2011	FY 2011	FY 2012	FY 2012	FY 2012
Appropriations	Approp.	Approp.	Adjustment	Total	Base	Adjustment	Total
Gen Fund	51,599,700	51,599,700	13,393,800	64,993,500	51,599,700	15,252,400	66,852,100
Ed Fund	17,164,300	17,164,300	0	17,164,300	17,164,300	0	17,164,300
Transp. Invest. Fund	15,019,100	44,531,100	(10,213,100)	34,318,000	44,531,100	15,595,300	60,126,400
Cent High	137,022,500	137,915,300	0	137,915,300	137,663,200	0	137,663,200
Ded Credit	20,925,000	34,600,000	6,387,200	40,987,200	42,922,000	0	42,922,000
1/4 of 1/4	19,307,500	20,988,300	0	20,988,300	20,988,300	0	20,988,300
Critical Hwy	22,033,400	60,162,100	(6,359,300)	53,802,800	60,162,100	14,177,500	74,339,600
Beginning	10,980,300	6,960,100	13,431,500	20,391,600	9,944,500	0	9,944,500
Closing	(6,960,100)	(6,960,100)	(2,984,400)	(9,944,500)	(7,145,000)	0	(7,145,000)
	287,091,700	366,960,800	13,655,700	380,616,500	377,830,200	45,025,200	422,855,400
Approp Buildings	68,541,000	68,541,000	0	68,541,000	68,541,000	0	68,541,000
Transfer to GF			(13,393,800)	(13,393,800)	0	(15,252,400)	(15,252,400)
Debt Service Budget							
Budget Buildings	67,986,900	72,696,200		72,696,200	67,458,600		67,458,600
Budget CHF	137,025,100	137,597,700		137,597,700	137,663,200		137,663,200
Budget Hwy 1/16	20,156,000	22,051,700		22,051,700	22,125,100		22,125,100
Budget TIF	15,348,800	34,265,000		34,265,000	60,126,400		60,126,400
Budget CHNF	21,646,000	53,802,800		53,802,800	74,339,600		74,339,600
Total	262,162,800	320,413,400		320,413,400	361,712,900		361,712,900
Over/ (Under) Appropriated							
Bldg	554,100	(4,155,200)	0	(4,155,200)	1,082,400	0	1,082,400
CHF	(2,600)	317,600	0	317,600	0	0	0
Hwy 1/16	(848,500)	(1,063,400)	0	(1,063,400)	(1,136,800)	0	(1,136,800)
TIF	(329,700)	10,266,100	(10,213,100)	53,000	(15,595,300)	15,595,300	0
CHNF	387,400	6,359,300	(6,359,300)	0	(14,177,500)	14,177,500	0
	(239,300)	11,724,400	(16,572,400)	(4,848,000)	(29,827,200)	29,772,800	(54,400)