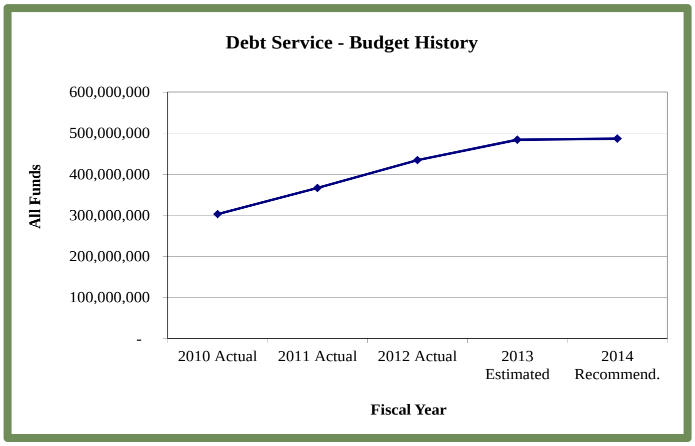
DEBT SERVICE

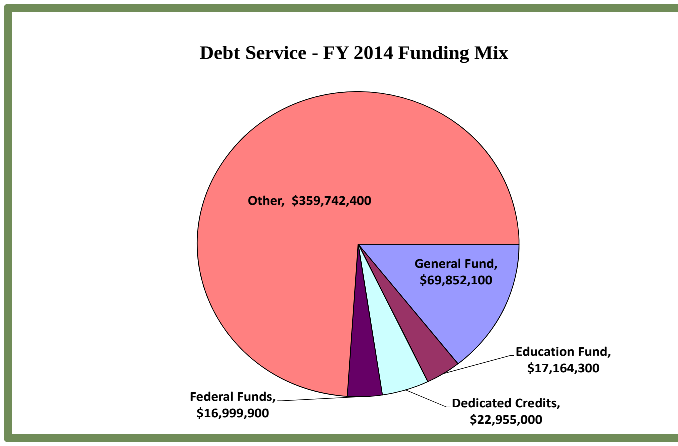
INFRASTRUCTURE & GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
STAFF: MARK C. BLEAZARD, GARY K. RICKS, ANGELA J. OH

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 (G.O.) bonds is combined in this line item.





ISSUES AND RECOMMENDATIONS

Outstanding G.O. Bonds

The table to the right does not include bonds authorized by the Legislature but not yet issued.

Outstanding GO Bond Indebtedness

	Series	Original Amount	Final Maturity Date	Outstanding as of Jan 1, 2013
Capital Facility Projects	2009B	$ 104,450,000	July 1, 2015	$ 64,875,000
	2009C	$ 126,780,000	July 1, 2015	$ 87,470,000
	2010A	$ 79,710,000	July 1, 2016	$ 79,710,000
	2011	$ 46,860,000	July 1, 2017	$ 46,860,000
	2012A	$ 33,240,000	July 1, 2017	$ 33,240,000
Highway Projects	2003A*	$ 269,385,000	July 1, 2013	$ 55,300,000
	2004A*	$ 314,775,000	July 1, 2016	$ 223,390,000
	2004B	$ 47,050,000	July 1, 2014	$ 7,700,000
	2007A	$ 68,995,000	July 1, 2014	$ 21,935,000
	2009A	$ 394,360,000	July 1, 2019	$ 173,685,000
	2009C	$ 363,630,000	July 1, 2018	$ 363,630,000
	2009D	$ 491,760,000	July 1, 2024	$ 491,760,000
	2010A	$ 333,280,000	July 1, 2017	$ 243,435,000
	2010B	$ 621,980,000	July 1, 2025	$ 621,980,000
	2010C*	$ 172,055,000	July 1, 2019	$ 172,055,000
	2011	$ 563,060,000	July 1, 2026	$ 534,300,000
	2012A*	$ 4,110,000	July 1, 2016	$ 4,110,000
	** refunding*			$ 3,225,435,000

Can bonds be paid off early?

Under our current schedule, Utah will pay off one bond (Series 2003A) on July 1, 2013. Any bond can legally be defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding transaction, a defeasance can also be accomplished with cash. Doing so would involve setting aside sufficient cash or US Treasury obligations in an escrow account to meet all principal and interest payments on the outstanding bonds as they become due. In today's low interest rate environment, negative arbitrage makes this an inefficient economic option.

Utah's "Triple A" Rating

The three nationally recognized bond rating agencies, Moody's, Standard and Poor's, and Fitch, provide ratings of credit worthiness of all states. At this time, only eight states merit a "Triple A" rating from all three agencies: Alaska, Georgia, Iowa, Maryland, Missouri, North Carolina, Utah, and Virginia.[1]

Build America Bonds Subsidy

Utah issued two 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 will save the State $55 million over 15 years on $1,114 million of G.O. bonds. About a year ago, 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 comply, the State appropriates an additional $15,252,400 from the General Fund to debt service. The funds will be transferred back to the General Fund upon receipt of the refund. Sequestration at the federal level could reduce the anticipated subsidy for the July 1, 2013 payment by up to $567,000 thereby reducing the amount transferred back to the General Fund by that amount.

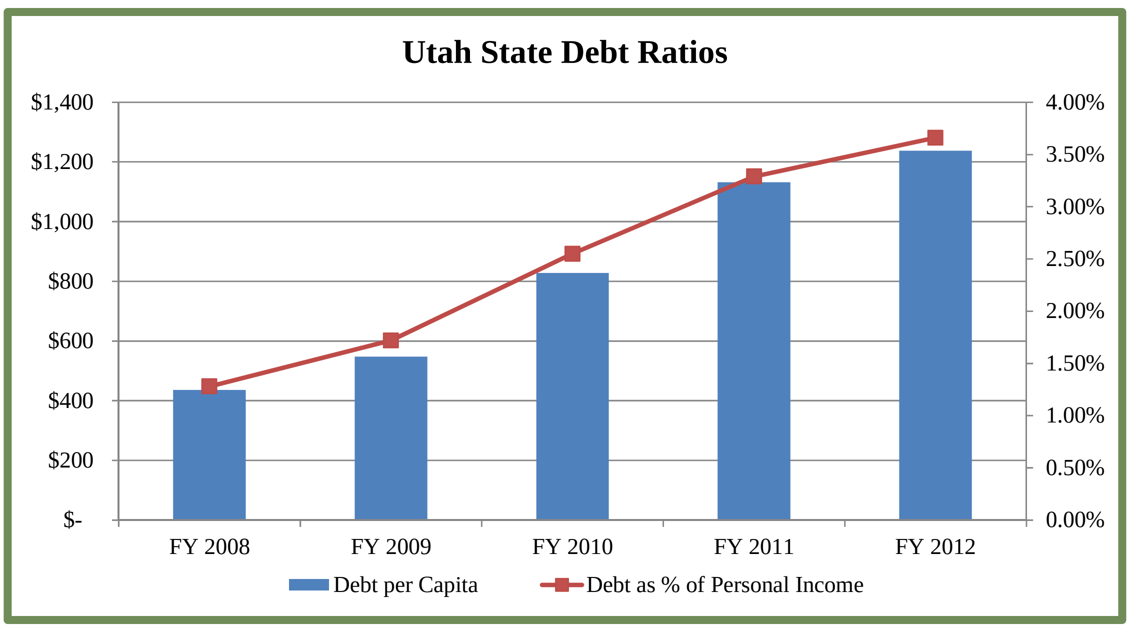
ACCOUNTABILITY

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.

Debt Ratios

Rating agencies, as well as investors, look at a state's outstanding debt relative to population and personal income. These indicators give insight into a state's indebtedness and the debt burden placed on taxpayers. Per capita debt is calculated by dividing the total outstanding debt by the current population estimate. Debt as a percent of personal income is calculated by dividing current outstanding debt by a state's total personal income. The chart below shows a history of Utah's debt ratios.



[1] Ratings as of February 13, 2013.

The current estimate of the State's general obligation per capita debt is $1,238 while Utah's debt as a percentage of personal income is currently 3.66%. 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.

BUDGET DETAIL

The FY 2014 budget of $54,599,700 from the General Fund and $17,164,300 from the Education Fund is required to meet debt service obligations. The $15,252,400 one-time General Fund in FY 2014 is the gross debt service appropriation to meet rating agency guidelines for BAB subsidies.

LEGISLATIVE ACTION

1. The Analyst recommends the Legislature approve the following changes from the Debt Service base budget in H.B. 6, Item 26 to bring the total budget for FY 2014 to $486,713,700:

    a. An increase of $1,893,400 from the Transportation Investment Fund;
    b. A decrease of $745,000 from Dedicated Credits;
    c. An increase of $2,744,300 from the County of the First Class State Highway Fund;
    d. A decrease of $5,568,000 from Beginning Nonlapsing balances;
    e. An increase of $57,728,100 from Closing Nonlapsing balances; and
    f. An appropriation of $15,252,400 from the General Fund one-time for the general obligation bonds portion of the Build America Bonds subsidy; and a corresponding transfer from debt service nonlapsing balances back to the General Fund to hold the General Fund harmless.

BUDGET TABLE DETAIL

Debt Service

Sources of Finance	FY 2012 Actual	FY 2013 Appropriated	Changes	FY 2013 Revised	Changes	FY 2014* Recommended
General Fund	54,599,700	54,599,700	0	54,599,700	0	54,599,700
General Fund, One-time	15,252,400	15,252,400	0	15,252,400	0	15,252,400
Education Fund	17,164,300	17,164,300	0	17,164,300	0	17,164,300
Transportation Investment Fund of 2005	82,431,100	112,062,200	528,000	112,590,200	220,613,800	333,204,000
Centennial Highway Fund	137,663,200	136,040,500	(86,500)	135,954,000	(135,954,000)	0
Federal Funds	16,999,900	17,000,000	0	17,000,000	(100)	16,999,900
Dedicated Credits Revenue	22,060,000	25,922,000	(4,266,700)	21,655,300	1,299,700	22,955,000
County of First Class State Highway Fund	20,988,300	21,870,400	230,400	22,100,800	2,513,900	24,614,700
Critical Highway Needs Fund	76,391,200	83,207,900	1,026,500	84,234,400	(84,234,400)	0
Transfers	(15,252,400)	0	0	0	0	0
Beginning Nonlapsing	12,197,400	(6,911,900)	13,060,900	6,149,000	(3,469,800)	2,679,200
Closing Nonlapsing	(6,149,000)	(10,849,400)	8,170,200	(2,679,200)	1,923,700	(755,500)
Total	$434,346,100	$465,358,100	$18,662,800	$484,020,900	$2,692,800	$486,713,700
Line Items						
Debt Service	434,346,100	465,358,100	18,662,800	484,020,900	2,692,800	486,713,700
Total	$434,346,100	$465,358,100	$18,662,800	$484,020,900	$2,692,800	$486,713,700
Categories of Expenditure						
Current Expense	434,346,100	465,358,100	18,662,800	484,020,900	2,692,800	486,713,700
Total	$434,346,100	$465,358,100	$18,662,800	$484,020,900	$2,692,800	$486,713,700

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