



# DEBT SERVICE

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE  
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ISSUE BRIEF

**SUMMARY**

Debt service is made up of interest and principal due on the state’s bonded indebtedness. The state often uses bonds to finance large capital expenditures, including new facility construction, major remodeling, and highway projects. General Obligation (G.O.) bonds are backed by the full faith and credit of the state. Revenue bonds are secured by dedicated revenue streams such as enterprise fund revenue or lease payments. Debt service on revenue bonds and G.O. bonds is combined in this line item.

**ISSUES AND RECOMMENDATIONS**

**Outstanding G.O. Bonds**

The table to the right includes current outstanding G.O. bond indebtedness broken out by buildings and highways. It does not include \$105.9 million in bonds authorized by the Legislature but not yet issued.

**Can bonds be paid off early?**

The question often arises as to whether bonds can be paid off early. Almost every year at least one bond series is paid off as it reaches its normal maturity. Under the normal schedule, Utah will pay off two bonds (Series 2004B and 2007A) on July 1, 2014. Any bond can be legally 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 U.S. Treasury obligations in an escrow account to meet all principal and interest payments on the outstanding bonds as they become due until their call date, at which point the escrow retires the remainder of the debt. However, the interest rate in the escrow account cannot exceed the interest rate on the bonds (“arbitrage”) or the bonds can lose their federal authorization to be tax free to investors. With the historically low interest rates on Utah’s bonds, defeasing them early may be an inefficient economic option.

Outstanding GO Bond Indebtedness				
	Series	Original Amount	Final Maturity Date	Outstanding as of Jan 1, 2014
Capital Facility Projects	2009B	\$ 104,450,000	July 1, 2015	\$ 44,100,000
	2009C	\$ 126,780,000	July 1, 2015	\$ 51,045,000
	2010A	\$ 79,710,000	July 1, 2016	\$ 76,710,000
	2011	\$ 46,860,000	July 1, 2017	\$ 46,860,000
	2012A	\$ 33,240,000	July 1, 2017	\$ 33,240,000
Highway Projects	2004A *	\$ 314,775,000	July 1, 2016	\$ 204,910,000
	2004B	\$ 47,050,000	July 1, 2014	\$ 3,950,000
	2007A	\$ 68,995,000	July 1, 2014	\$ 11,215,000
	2009A	\$ 394,360,000	July 1, 2019	\$ 150,005,000
	2009C	\$ 363,630,000	July 1, 2018	\$ 302,105,000
	2009D	\$ 491,760,000	July 1, 2024	\$ 491,760,000
	2010A	\$ 333,280,000	July 1, 2017	\$ 191,000,000
	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	\$ 505,535,000
	2012A*	\$ 4,110,000	July 1, 2015	\$ 4,110,000
	2013	\$ 226,175,000	July 1, 2028	\$ 226,175,000
	* refunding			

**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. As of 2013, nine states merit a “Triple A” rating from all three agencies: Alaska, Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Utah, and Virginia.

**Build America Bonds Subsidy**

Utah issued five bond series using the federal Build America Bonds (BAB) program (two G.O. issues and three revenue bond issues) which provided an IRS refund subsidy in return for selling taxable bonds at higher interest rates. The BAB program as originally programmed was estimated to save the State \$55 million over 15 years on \$1,114 million of G.O. bonds. About two years ago, bond rating agencies provided direction to issuers using the BAB program to budget debt service gross of federal subsidies. This direction indicated a certain level of risk with the BAB program. To comply, the State appropriated an additional \$15,252,400 from the General Fund to the Debt Service budget. The funds will be transferred back to the General Fund upon receipt of the refund.

However, recent changes to federal sequestration reduced the anticipated subsidy for the FY 2014 refund payments by \$1,098,200 or 7.2 percent of the original subsidy, thereby increasing the amount that will need to be transferred from the TIF and County funds to cover the BABs shortfall. Future changes in subsidies will be determined by Congress as it sets appropriations under federal spending caps, meaning it is unclear at the moment whether and how much additional sequestration will occur in the BABs program.

**Authorized Bonds Not Yet Issued**

The Analyst recommends the Legislature review two bond authorizations and consider rescinding them.

1. A G.O. bond authorized in S.B 298 (2008 G.S.) for \$42,500,000 for the St. George airport. The need for this authorization has lapsed and it is unlikely the bonds will be issued.
2. A lease-revenue bond authorized in S.B. 235 (2000 G.S.) for \$10,500,000 for a State Fairpark multipurpose building. This approval is now fourteen years old. The Analyst recommends the Fairpark management renew its request to the Legislature if they still desire to issue bonds.

**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 following information comes from the State’s 2013 [Continuing Disclosure](#):

Fair market value of ad valorem taxable property .....	\$261,933,703,652
Fees in lieu of ad valorem taxable property .....	11,020,102,658
Total fair market value of taxable property .....	<u>\$272,953,806,310</u>
Constitutional debt limit (1.5%) .....	\$4,094,307,095
Less: currently outstanding general obligation debt (net) .....	<u>(3,278,406,150)</u>
Estimated additional constitutional debt incurring capacity of the State .....	<u>\$815,900,945</u>

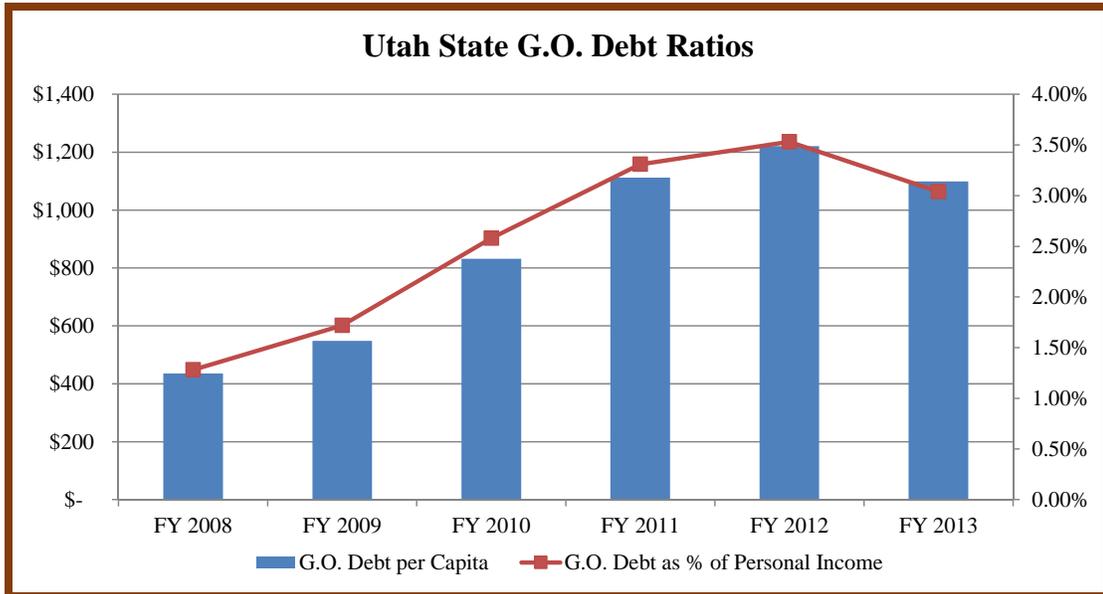
The State’s statutory debt limit caps general obligation debt to 45 percent of the maximum allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation. The following information comes from the same Continuing Disclosure as referenced above:

The State Appropriations and Tax Limitation Act and additional general obligation debt incurring capacity of the State under that act are as of December 31, 2013, as follows:

Statutory general obligation debt limit.....	\$1,490,771,225
Less: statutorily applicable general obligation debt (net) .....	<u>(414,858,625)</u>
Remaining statutory general obligation debt incurring capacity .....	<u>\$1,075,912,600</u>

**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 G.O. debt ratios.



The current estimate of the State’s G.O. per capita debt is \$1,099 while Utah’s debt as a percentage of personal income is currently 3.04%. Both are slight reductions from the peak in FY 2012 which resulted from increased bonding for highway projects including the reconstruction of I-15 in Utah County and the Critical Highway Needs program.

