



Richard K. Ellis
Utah State Treasurer

Long-Term Debt Obligations of the State

Executive Appropriations Committee

May 20, 2014



Discussion Outline

- State obligations
 - History & current structure
 - Comparative measures of leverage
 - Credit rating agency considerations
- School bond guaranty program
- Moral obligation pledged commitments of the State
- Miscellaneous non-State debt & contingencies



State Obligations – Current* Totals

General Obligation Bonds: \$3,136,755,000

SBOA Revenue Bonds: \$282,280,000

Recapitalization Revenue Bonds: \$51,800,000

*As of January 1, 2014

3

Richard K. Ellis | Utah State Treasurer



State Obligations

State of Utah
Outstanding Debt
(June 1995 through June 2030)



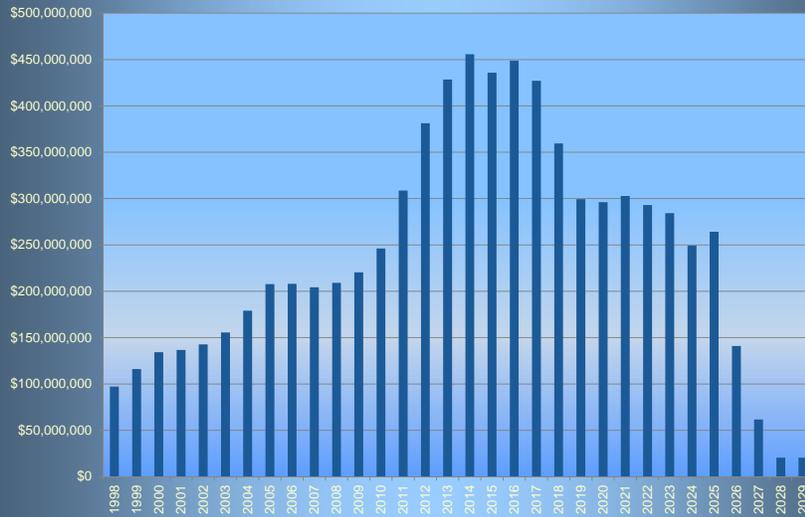
As of May 2014

4

Richard K. Ellis | Utah State Treasurer



Annual P & I Debt Service – G.O. Bonds



Source: State's Financial Advisor (compiled from past Official Statements)

Richard K. Ellis | Utah State Treasurer



5

Historical Per Capita G.O. Debt

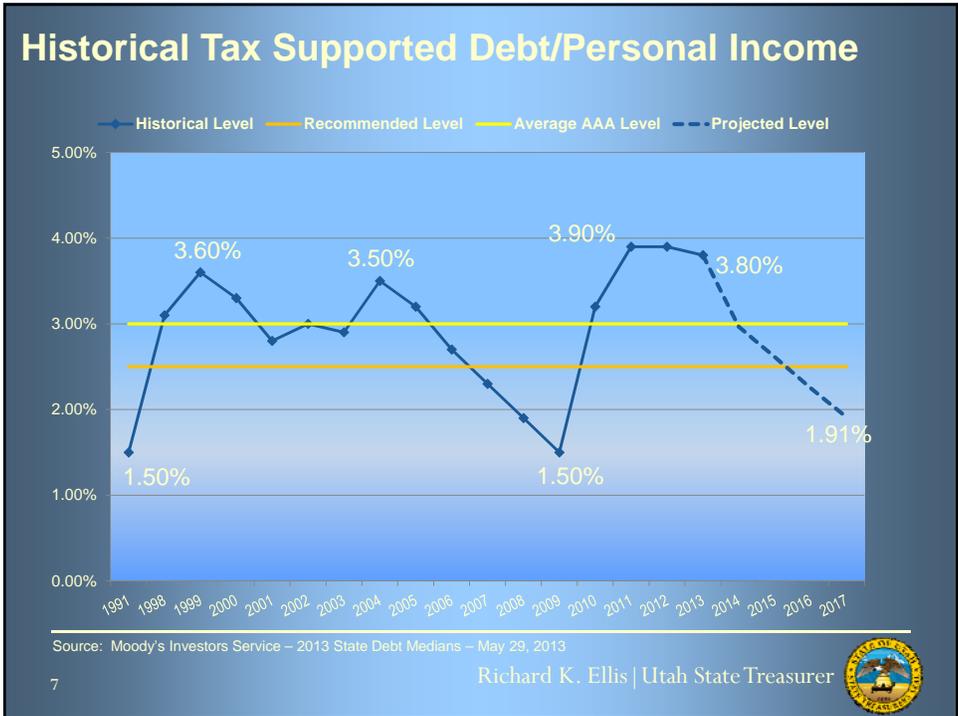


Source: State's Financial Advisor (compiled from past Official Statements)

Richard K. Ellis | Utah State Treasurer



6



Rating Agency Considerations

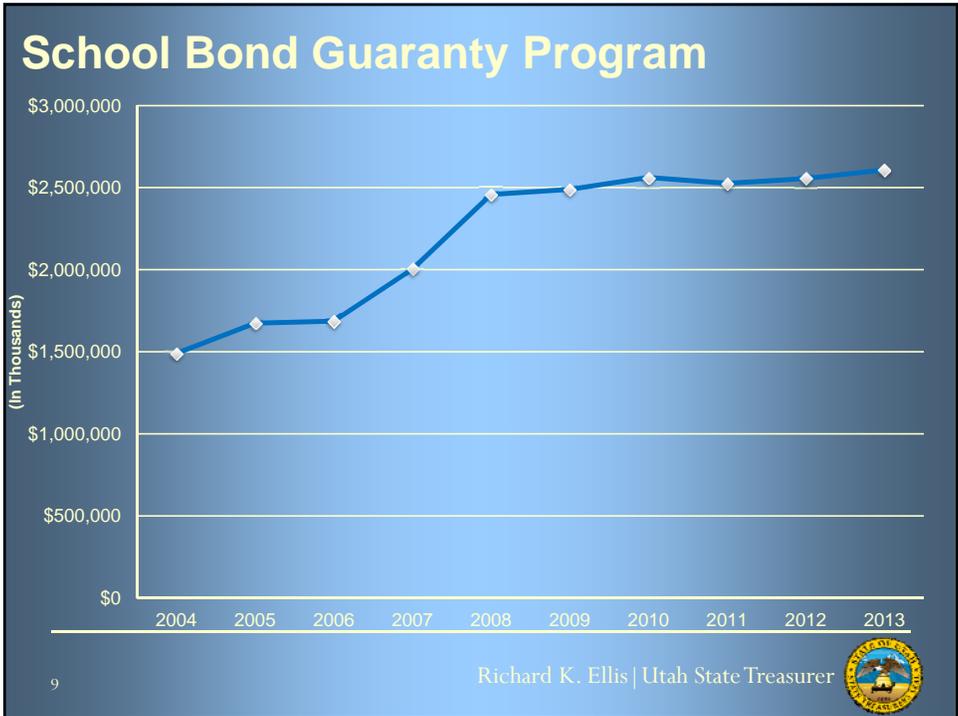
Credit Positives

- Rapid/short amortization
- History of taking action to close budgetary gaps
- Historical prioritization of building reserves
- [Historically] conservative approach to debt issuance (“limited until 2009”)
- Adequately funded pension system

Credit Challenges

- Lack of statutory prioritization of debt service
- Debt burden “that has risen quickly to an above-average level”

Richard K. Ellis | Utah State Treasurer



- ### School Bond Guaranty Program
- Carries the State's pledge of full faith, credit, & taxing power
 - Fiscal solvency of districts monitored by the state superintendent
 - Eligibility subject to review and approval by the state treasurer
 - Notification requirements: business administrator & paying agent
 - State financial assistance intercept mechanism
 - Reimbursement requirement – includes interest
 - State treasurer may impose penalty not more than 5%
 - Through judicial action can compel a district's to levy property tax for repayment
 - Treasurer may, if needed, seek a loan from the Permanent School Fund or issue short-term debt (not subject to 1.5% CDL and up to 18 months)
- 10
- Richard K. Ellis | Utah State Treasurer
- 

Moral Obligation Pledged Commitments

Moral obligation pledge defined:

A pledge by the State to make up shortfalls in a debt service reserve fund, subject to legislative appropriation.

While there is no legal obligation for the State to make such a payment, market participants recognize that failure to honor the moral pledge would have negative consequences for the State's own creditworthiness.

11

Richard K. Ellis | Utah State Treasurer



Moral Obligation Pledged Commitments

State Board of Regents*:	\$1,927,315,000
Recapitalization Revenue (Water):	\$51,800,000
<u>Charter School Credit Enhancement:</u>	<u>\$73,100,000</u>
Total:	\$2,052,215,000

NOTE: These are self-sustaining bond programs

*As of May 1, 2013

12

Richard K. Ellis | Utah State Treasurer



Recapitalization Revenue Bonds

Board of Water Resources Revolving Loan Fund

- Secured by pool of water loans
- Loans may be substituted if a loan defaults or has an early pay off

13

Richard K. Ellis | Utah State Treasurer



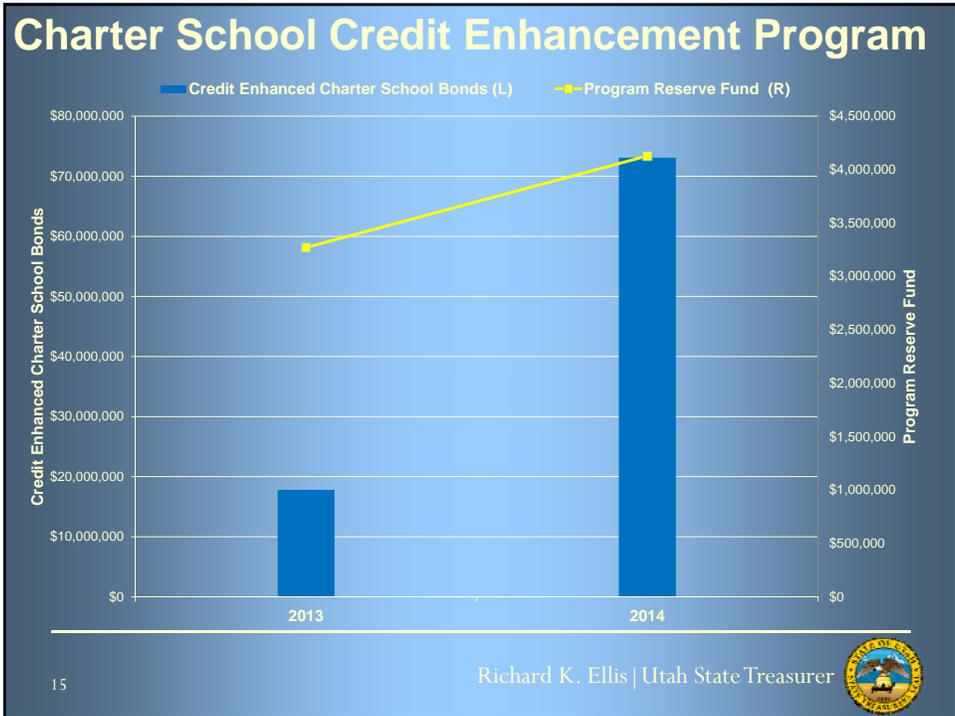
Charter School Credit Enhancement Program

- Program limit on size of state's commitment
- Program Reserve Fund – upfront and annual payments
- Each transaction carries its own debt service reserve
- Exhaustive program application standards address:
 - Investment grade rating
 - Enrollment/student demand criteria
 - Academic performance standards
 - Management/governance criteria
 - Financial performance
 - Covenants

14

Richard K. Ellis | Utah State Treasurer





15

Charter School Credit Enhancement Program

In the event of a draw on the State's moral obligation, the UCSFA is granted rights typically provided to bond insurance companies:

- Right “of a bond holder” and to direct proceedings to enforce remedies under the terms of the Program and bond loan documents, including the right to mandate certain expenditure reductions and controls and to accelerate the bond debt
- the right to receive notices
- indemnification by the school for expenses in connection with the enforcement, defense, or preservation of rights under the bond indenture, including litigation

Richard K. Ellis | Utah State Treasurer

16

Miscellaneous Non-State Debt & Contingencies

- State agencies/state created entities
 - Governor’s Office of Economic Development
 - Unenhanced charter school bonds issued through UCSFA
 - Utah Capital Investment Corporation
 - Utah Energy Infrastructure Authority
 - MIDA
- Entities have no experience issuing debt
- Bondholders may look through to the State for bailout because they are State-created entities

17

Richard K. Ellis | Utah State Treasurer



Miscellaneous Non-State Debt & Contingencies

- Debt issued by local political subdivisions
 - Special assessment areas
 - Cities, counties, special service districts
- Distinction between “essential” and “non-essential” government service
- State intervention for “essential” services of cities and counties makes sense
- State intervention for “non-essential” services a potential credit negative
 - Range from speculative land development to questionable “business-like activities”
 - State intervention sets a bad precedent

18

Richard K. Ellis | Utah State Treasurer



Miscellaneous Issues

- Fallout from Detroit bankruptcy
 - Confusion about security of “G.O. pledge”
 - Statutory prioritization of debt service
- Fund balances and reserves
- Structural balance



Richard K. Ellis
Utah State Treasurer

Long-Term Debt Obligations of the State

Executive Appropriations Committee

May 20, 2014

