DEBT SERVICE OVERVIEW

EXECUTIVE APPROPRIATIONS COMMITTEE
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ISSUE BRIEF

OVERVIEW

In February 2018, the State issued General Obligation Bonds, Series 2018 at a par amount of $343.2 million. The sale generated proceeds of $100.0 million for the prison project and $284.7 million for transportation projects. The bonds sold at a true interest rate of 2.5 percent and the final debt payments will occur on July 1 of 2026 and 2032 for the prison portion and transportation portion, respectively. Under current statute the State is authorized to issue bonds for another $350.0 million for the prison project and $778.2 million for transportation projects. As of February 6, 2018 the State planned issuances as follows: 1) prison project – $225.0 million in Jan./Feb. 2019 and $125.0 million in Jan./Feb. 2020; and 2) transportation projects – $150.0 million in Jan./Feb. 2019, $300.0 million in Jan./Feb. 2020, and $265.0 million in Jan./Feb. 2021.[1,2]

Over the past ten years the State's general obligation (G.O.) bond debt has ranged from a low of $1.6 billion in FY 2009 to a high of $3.7 billion in FY 2012, and the debt was $2.6 billion as of February 6, 2018 (including debt incurred with issuance of Series 2018). During the ten-year period debt service for G.O. and lease revenue (L.R.) bonds, the amount required to make principal and interest payments, has ranged from a low of $245.3 million in FY 2009 to a high of $478.3 million in FY 2014.[1,3,4]

DEBT SERVICE BUDGET

Debt service constitutes payment of interest and principal on the State's bonded indebtedness. The State uses bonds to finance large capital expenditures, including new facility construction, major remodeling, and highway projects. General obligation bonds are backed by the full faith and credit of the State. Lease revenue (L.R.) bonds are secured by dedicated revenue streams such as enterprise fund revenue or lease payments. The debt service line item in appropriations bills combines service for G.O. and L.R. bonds. As shown in Table 1, beginning with FY 2018 the use of funds for G.O. bond debt service is tracked separately for higher education, public education, transportation, and other state government.

The state paid $447.6 million for debt service in FY 2017 and the Legislature appropriated $392.9 million in FY 2018 and $360.9 million in FY 2019 for debt service. Table 1 shows sources of finance and use of funds for debt service for FY 2017 Actual, FY 2018 Revised Appropriated, and FY 2019 Appropriated.[4]

Table 1: Debt Service Sources of Finance and Uses of Funds

Source of Finance	**FY 17 Actual***	**FY 18 Rev. App.**	**FY 19 Appropriated**
General Fund	54,535,800	8,535,800	71,757,600
Gen. Fund, One-time	14,200,000	49,716,500	(31,754,300)
Education Fund	17,221,800	17,221,800	
Edu. Fund, One-time		(3,942,100)	
TIF of 2005	348,420,200	275,181,800	288,711,200
TIF of 2005, One-time	(22,957,700)	3,139,300	
Federal Funds	15,845,800	15,827,000	15,812,700
Ded. Credits Revenue	24,050,000	24,959,400	17,356,900
County of 1st Class	7,409,500	9,537,000	13,541,500
Transfers	(14,214,000)	(14,200,000)	(14,245,700)
Beginning Nonlapsing	19,011,200	7,931,500	931,500
Closing Nonlapsing	(15,890,200)	(997,200)	(1,179,900)
Total	*447,632,400*	*392,910,800*	*360,931,500*
Use of Funds			
G.O.	418,624,500		
G.O. – Higher Education		36,866,500	
G.O. – Public Education			
G.O. – Transportation		308,992,400	316,498,400
G.O. – State Government		20,242,500	25,534,600
L.R.	29,007,900	26,809,400	18,898,500
Total	*447,632,400*	*392,910,800*	*360,931,500*

*FY 2017 actuals are rounded to the nearest hundred.

GENERAL OBLIGATION BONDS

Outstanding G.O. Bonds. The State's G.O. bond indebtedness as of February 28, 2018 was $2.6 billion. In addition to previously issued bonds the debt included $343.2 million of bonds issued in February 2018 to fund construction of the prison and transportation projects, $110.8 million in total unamortized bond premium, and $92.0 million of unused vacation leave for State employees. It did not include approximately $1.1 billion in bonds authorized by the Legislature but not yet issued for these purposes. The State paid $251.3 million toward G.O. principal on July 1, 2018. Table 2 provides detail on outstanding G.O. bonds.[1,5]

Table 2: General Obligation Bonds Principal Outstanding

	Series	**Original Principal Amount**	**Final Maturity Date July 1**	**Principal Outstanding as of February 28, 2018**	**Principal Payments Made on July 1, 2018**
Prison	2017	100,810,000	2027	100,810,000	5,355,000
	2018	88,605,000	2026	88,605,000	6,785,000
Highway Projects	2009A	394,360,000	2018	25,265,000	25,265,000
	2009C**	363,630,000	2018	70,865,000	70,865,000
	2009D	491,760,000	2024	491,760,000	0
	2010B	621,980,000	2025	621,980,000	0
	2010C*	172,055,000	2019	114,910,000	70,435,000
	2011A**	563,060,000	2021	175,965,000	43,995,000
	2013	226,175,000	2022	71,225,000	12,850,000
	2015*	220,980,000	2026	220,980,000	0
	2017	41,260,000	2032	41,260,000	1,160,000
	2017*	118,700,000	2028	118,700,000	1,100,000
	2018	254,550,000	2032	254,550,000	13,505,000
			Total Unamortized Premium	110,764,361	
			State Employees' Unused Vacation Leave	92,010,084	
			Total	2,599,649,445	251,315,000

* refunding
** the series included funds for highways (shown in the table) and for buildings (paid off)

Bond Defeasance. Any bond can be legally defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding (refinancing) transaction, a defeasance can also occur with cash. Doing so involves setting aside sufficient cash or U.S. government 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, there are limits to the degree which interest rates in escrow can exceed interest rates on the bonds (creating "arbitrage"), such that the bonds could lose their federally tax-exempt status. The last defeasance occurred in December 2017 and saved the State an estimated $5.3 million (net present value) when portions of Series 2013 were refinanced.[6]

Build America Bonds Subsidy. Utah issued five bond series using the federal Build America Bonds (BABs) program (two G.O. issues and three revenue bond issues) which used taxable bonds with a 35 percent direct cash subsidy paid by the U.S. Treasury to the issuer, in lieu of the traditional federally tax-exempt bond structure. The BABs program was originally projected to save the State approximately $55 million (net present value) over 15 years on approximately $1.11 billion of G.O. bonds. However, the United States Congress has reduced subsidies and the actual savings realized will be less than the amount originally projected. The State budgets for debt service gross of federal subsidies to ensure sufficient funds to make payments regardless of federal actions – the State appropriated an additional $14,200,000 from the General Fund to the Debt Service budget for FY 2018 and $14,245,700 for FY 2019, and the funds will be transferred back to the General Fund upon receipt of the federal subsidy.[4]

Constitutional and Statutory Bonding Capacity. The State's constitution caps total general obligation debt at 1.5 percent of the value of the taxable property in the State. The data that follow in this section are estimated as of February 28, 2018.[1,7]

Fair market value of ad valorem taxable property	$335,540,187,517
Fees in lieu of ad valorem taxable property	$12,176,096,150
Total fair market value of taxable property	$347,716,283,667
Constitutional debt limit (1.5%)	$5,215,744,255
Less: currently outstanding general obligation debt (net)	($2,507,639,361)
Less: long-term contract liabilities*	($92,010,084)
Estimated additional constitutional debt incurring capacity of the State	$2,616,094,810

The State's outstanding G.O. debt and long-term liabilities as a percent of the constitutional debt limit is about 49.8 percent.

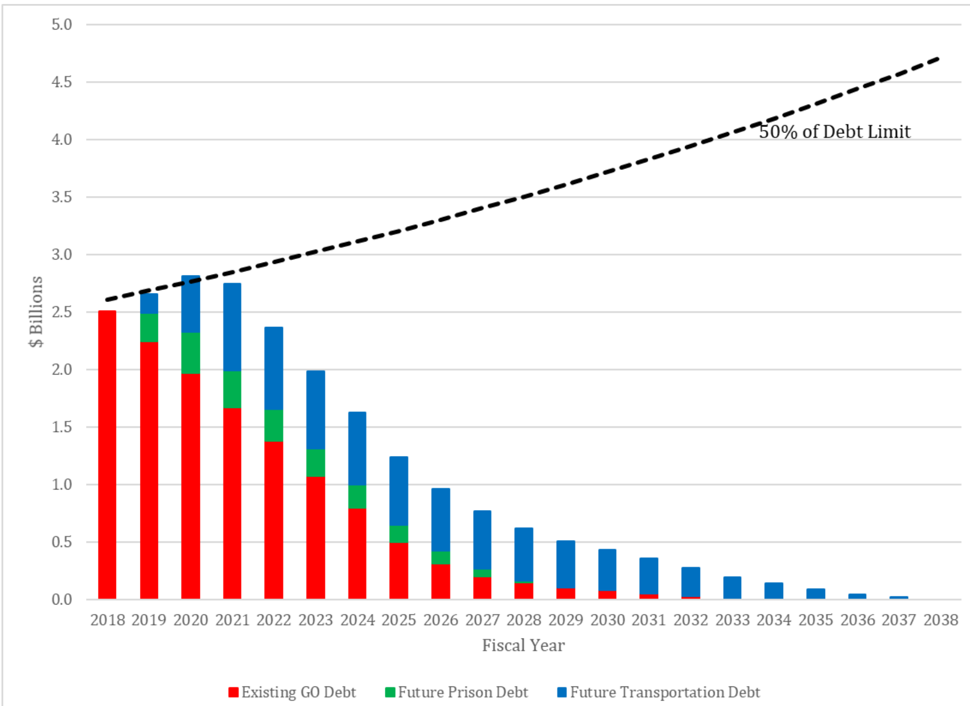
The State's statutory debt limit caps general obligation debt at 45 percent of the maximum allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation. Based on the State Appropriations and Tax Limitation Act, additional general obligation debt incurring capacity of the State under that act is estimated as of February 28, 2018 as follows:

Statutory general obligation debt limit	$1,681,834,186
Less: statutorily applicable general obligation debt (net)	($218,459,606)
Less: long-term contract liabilities*	($92,010,084)
Remaining statutory general obligation debt incurring capacity	$1,371,364,496

* In the opinion of the State Auditor, the State has long–term contract liabilities consisting of unused vacation leave for employees of approximately $92,010,084 which financial obligations may be considered as general obligation debt of the State. No final legal determination has been made on this opinion.

G.O. Debt Issuance and Payoff Schedule. Chart 1 depicts existing G.O. bond debt and models future issuance of authorized but not yet issued prison and transportation debt. Under this scenario, the State will make a final G.O. debt payment on July 1, 2037. This model does not include the long-term contract liabilities discussed above.[8]

Chart 1: General Obligation Debt Outstanding



LEASE REVENUE (L.R.) BONDS

As shown in Table 3, the State Building Ownership Authority's outstanding principal for L.R. bonds was $337.2 million as of February 28, 2018 (including $18.725 million that had not yet been issued but was expected to be issued in March 2018). Under the current schedule (assuming no additional bonds issued), the State will make a final L.R. bond debt payment on May 15, 2039.[1]

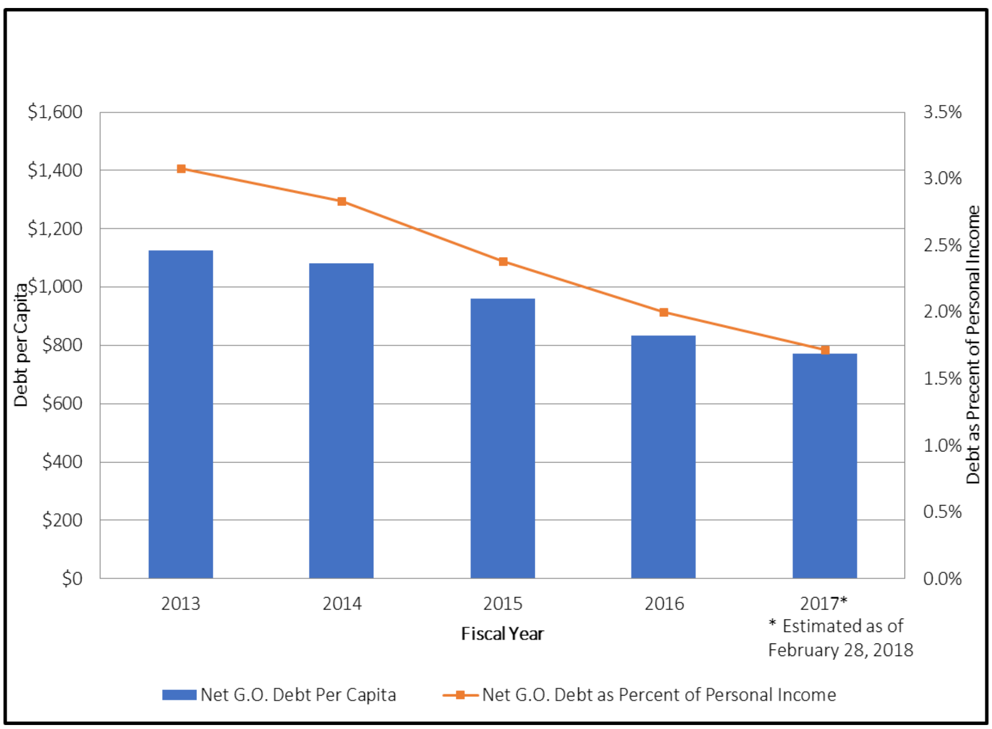
Table 3: Lease Revenue Bonds Principal Outstanding

Series	Original Amount	Final Maturity Date May 15	Principal Outstanding as of July 10, 2017
1998C	105,100,000	2019	10,405,000
2009A	25,505,000	2019	2,200,000
2009B	8,445,000	2019	2,425,000
2009C	16,715,000	2029	16,715,000
2009E	89,470,000	2030	89,470,000
2010	36,735,000	2024	22,405,000
2011	5,250,000	2031	3,175,000
2012A	15,610,000	2027	14,620,000
2012B	11,700,000	2022	4,175,000
2015	30,015,000	2030	28,860,000
2016	98,150,000	2038	98,150,000
2017	25,910,000	2024	25,910,000
2018	18,725,000	2039	18,725,000
		Total	337,235,000

CREDIT RATING AND DEBT RATIOS

The three primary nationally recognized bond rating agencies, Moody's, Standard and Poor's, and Fitch, rate the general obligation debt of all states. Utah is one of thirteen states that currently receives the highest actual or implied "Triple A" rating from all three agencies. When evaluating a state's debt, rating agencies and investors focus in particular on "debt affordability" measures, such as a state's outstanding debt relative to population and personal income. Chart 2 shows Utah's G.O. debt affordability as measured by these two ratios for the past five fiscal years.[1,9]

Chart 2: G.O. Debt Per Capita and as a Percent of Personal Income



Utah's FY 2017 G.O. debt per capita was $773 and its debt as a percent of personal income was 1.72 percent (estimated as of February 28, 2018). Both measures have declined from their peaks 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. However, both measures will rise as the State issues additional debt that has been already been authorized for prison construction and transportation projects.

As shown in Charts 3 and 4 – as reported by Moody's Investor Service on April 28, 2018 – Utah ranked near the middle among the thirteen current consensus Triple-A states on the following measures of debt affordability: Chart 3 - net tax-supported debt (NTSD) per capita and NTSD as a percent of personal income; and Chart 4 – NTSD as a percent of state gross domestic product (GDP) and debt service as a ratio of state revenue. (Note: Triple-A states are labeled and represented by red dots; other states are unlabeled and represented by black dots.)[10]

Chart 3: NTSD Per Capita and NTSD as a Percent of Personal Income

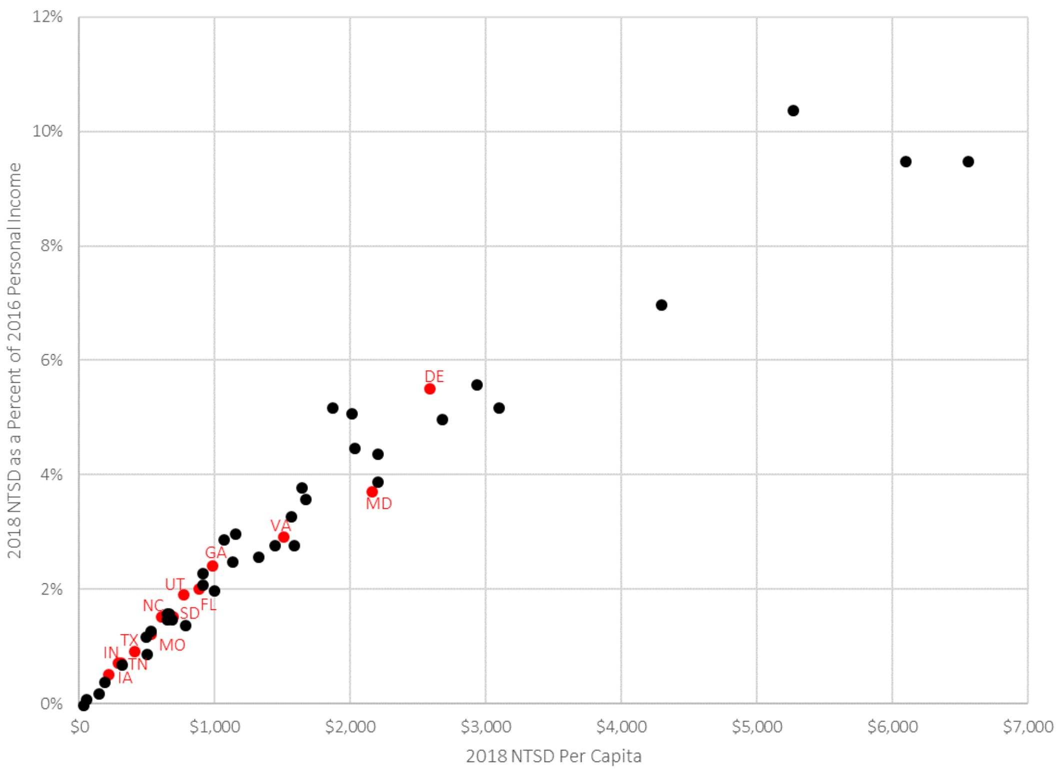
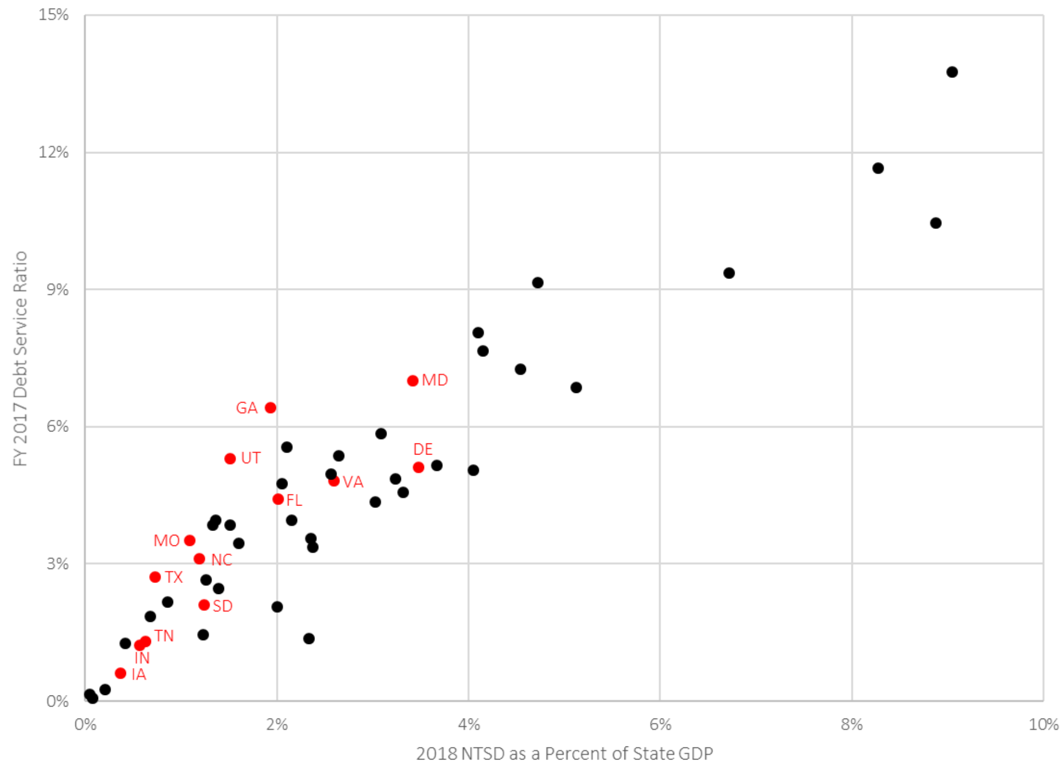


Chart 4: NTSD as a Percent of State GDP and Debt Service Ratio



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[1] State of Utah General Obligation Bonds, Series 2018 - Official Statement.
[2] State of Utah General Obligation Bonds, Series 2018 - Issue Summary prepared by Zions Public Finance, Inc.
[3] State of Utah Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017.
[4] Compendium of Budget Information prepared by the Office of the Legislative Fiscal Analyst.
[5] State of Utah General Obligation Bonds, Series 2017 - Issue Summary prepared by Zions Public Finance, Inc.
[6] State of Utah General Obligation Refunding Bonds, Series 2017 - Issue Summary prepared by Zions Public Finance, Inc.
[7] Utah Constitution, Article XIV, Section 1.
[8] General obligation debt issuance and payoff scheduled modeled by the Office of the Legislative Fiscal Analyst.
[9] Email to the fiscal analyst from Zions Public Finance, Inc.
[10] Medians – State Debt published by Moody's Investors Service on April 24, 2018.