



DEBT AND DEBT SERVICE OVERVIEW

EXECUTIVE APPROPRIATIONS COMMITTEE
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ISSUE BRIEF

OVERVIEW

Over the past ten years the State's general obligation (G.O.) bond debt has ranged between \$2.2 billion (FY 2017) and \$3.7 billion (FY 2012), and its lease revenue (L.R.) debt has ranged between \$250 million (FY 2015) and \$328 million (FY 2016). As of May 27, 2020 the State's G.O. debt was \$3.1 billion including debt incurred with issuance of Series 2020B on that date and its L.R. debt was \$283 million. During the ten-year period combined debt service for G.O. and L.R. bonds—the amount required to make principal and interest payments—has ranged between \$350 million (FY 2019) and \$484 million (FY 2018).^{1,2}

In May 2020 the State issued General Obligation Bonds, Series 2020B, at a par amount of \$447 million. The sale generated proceeds of \$350 million for prison construction and \$177 million for transportation projects.

RECOMMENDATION

In the past we have recommended that the Legislature rescind bond authorization when the State does not plan to issue the debt for the originally intended purpose. For example, in the July 2015 meeting of the Executive Appropriations Committee we recommended that the Legislature rescind approximately \$64 million of authorized but unissued G.O. debt that the Department of Transportation did not intend to use, and the committee voted unanimously to open a bill file to rescind the authorization. The Senate subsequently passed [S.B. 95](#), "General Obligation Bond Amendments," 2016 General Session, which rescinded the authorization; however, the bill did not pass in the House. In the 2019 General Session the Legislature redirected the use of most of that authorization to fund projects as specified in [S.B. 268](#), "Transportation Infrastructure Bond Amendments."

Under current statute the State is authorized to issue G.O. bonds for another \$1.2 million for transportation projects throughout the state (authorized in the 2007 General Session) and \$0.1 million for transportation projects in Salt Lake County (authorized in the 2018 General Session). As of May 27, 2020, the State did not plan to issue these bonds. We recommend that the Legislature consider rescinding these authorizations.¹

DEBT SERVICE BUDGET

Debt service constitutes payment of interest and principal on the State's bond debt. General obligation bonds are backed by the full faith and credit of the State and lease revenue bonds are secured by dedicated revenue streams such as enterprise fund revenue and lease payments. The debt service line item in the State's budget combines payments for G.O. and L.R. bonds. As shown in Table 1 the State paid \$392 million in FY 2019 and the Legislature appropriated \$479 million in FY 2020 and \$442 million in FY 2021 for debt service.²

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

| Source of Finance | FY 19 Actual | FY 20 Rev. App. | FY 21 Appropriated |
|---------------------------|---------------------|------------------------|---------------------------|
| General Fund | 71,757,600 | 71,534,600 | 37,534,600 |
| General Fund, One-time | (35,910,500) | (33,227,000) | 10,326,700 |
| Trans. Inv. Fund of 2005 | 294,565,600 | 398,743,300 | 356,407,200 |
| Federal Funds | 1,560,300 | 1,578,300 | 1,379,400 |
| Federal Funds, One-time | 14,306,700 | 12,852,500 | 10,610,500 |
| Dedicated Credits Revenue | 17,487,100 | 28,770,000 | 28,497,300 |
| County of the First Class | 13,540,200 | 12,262,300 | 7,927,900 |
| Transfers | (8,999,300) | (13,028,600) | (10,610,500) |
| Other Financing Sources | 616,400 | | |
| Beginning Nonlapsing | 43,875,400 | 20,541,000 | 20,541,000 |
| Closing Nonlapsing | (20,541,000) | (20,541,000) | (20,541,000) |
| <i>Total</i> | <i>392,258,500</i> | <i>479,485,400</i> | <i>442,073,100</i> |
| Use of Funds | | | |
| G.O. – State Government | 21,099,400 | 25,279,000 | 37,250,800 |
| G.O. – Transportation | 322,868,900 | 424,034,200 | 374,945,600 |
| Revenue Bonds | 48,290,200 | 30,172,200 | 29,876,700 |
| <i>Total</i> | <i>392,258,500</i> | <i>479,485,400</i> | <i>442,073,100</i> |

GENERAL OBLIGATION BONDS

Outstanding G.O. Bonds. The State's G.O. bond debt as of May 27, 2020 was \$3.1 billion. In addition to previously issued bonds and the Series 2020B bonds the debt included \$245 million in total unamortized bond premium (the difference between the sale price of a bond and the par value after certain expenses). It did not include long-term contract liabilities consisting of unused vacation leave for State employees of \$100 million which in the opinion of the State Auditor may be considered as general obligation debt of the State. The State paid \$308 million toward G.O. principal on July 1, 2020. Table 2 provides detail on outstanding G.O. bonds.^{1,3}

Table 2: General Obligation Bonds Principal Outstanding

| | Series | Original Principal Amount | Final Maturity Date July 1 | Principal Outstanding as of May 27, 2020 | Principal Payments Made on July 1, 2020 |
|----------------------------------|---------------|----------------------------------|-----------------------------------|---|--|
| Prison | 2017 | 100,810,000 | 2027 | 86,830,000 | 9,050,000 |
| | 2018 | 88,605,000 | 2026 | 73,275,000 | 8,985,000 |
| | 2020B | 295,690,000 | 2028 | 295,690,000 | |
| Highway | 2009D | 491,760,000 | 2024 | 417,615,000 | 87,715,000 |
| | 2010B | 621,980,000 | 2025 | 592,510,000 | 101,775,000 |
| | 2011A** | 563,060,000 | 2021 | 87,980,000 | 43,990,000 |
| | 2013 | 226,175,000 | 2022 | 44,850,000 | 14,200,000 |
| | 2015* | 220,980,000 | 2026 | 117,785,000 | |
| | 2017 | 41,260,000 | 2032 | 38,025,000 | 2,175,000 |
| | 2017* | 118,700,000 | 2028 | 116,300,000 | 1,300,000 |
| | 2018 | 254,550,000 | 2032 | 228,735,000 | 12,940,000 |
| | 2019 | 127,715,000 | 2033 | 121,290,000 | 6,135,000 |
| | 2020 | 448,430,000 | 2034 | 448,430,000 | 19,750,000 |
| | 2020B | 151,625,000 | 2034 | 151,625,000 | |
| Total Unamortized Premium | | | | 244,594,880 | |
| Total | | | | 3,065,534,880 | 308,015,000 |

* refunding

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

Bond Defeasance. A 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.⁴

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 \$1.1 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 \$13 million from the General Fund to the Debt Service budget for FY 2020 and \$11 million for FY 2021, and the funds will be transferred back to the General Fund upon receipt of the federal subsidy.²

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 May 27, 2020.^{1,5}

| | |
|---|--------------------------|
| Fair market value of ad valorem taxable property..... | \$402,353,021,949 |
| Fees in lieu of ad valorem taxable property..... | \$13,297,245,336 |
| Total fair market value of taxable property | <u>\$415,650,267,285</u> |
| Constitutional debt limit (1.5%)..... | \$6,234,754,009 |
| Less: currently outstanding general obligation debt (net) | (\$3,065,534,880) |
| Less: long-term contract liabilities* | <u>(\$100,062,000)</u> |
| Estimated additional constitutional debt incurring capacity of the State..... | <u>\$3,069,157,129</u> |

The State’s outstanding G.O. debt and long-term liabilities totaled 51 percent of the constitutional debt limit.

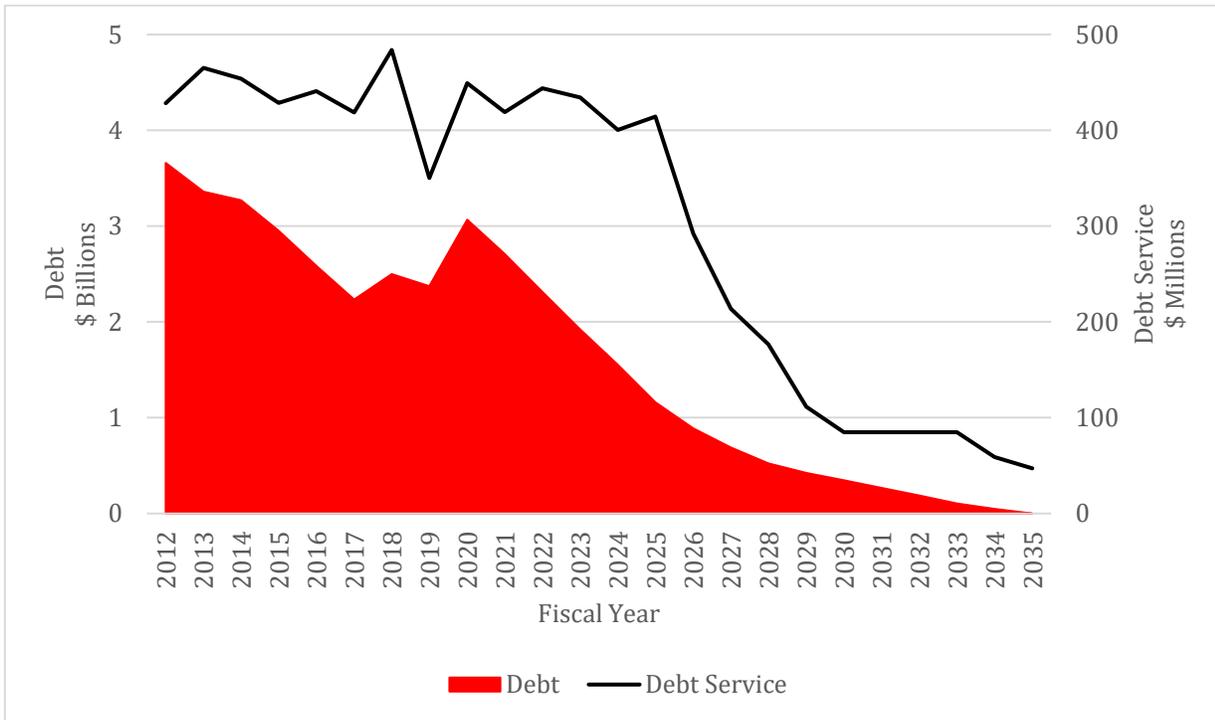
The State’s statutory debt limit caps general obligation debt at 45 percent of the maximum allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation. Based on the State Appropriations and Tax Limitation Act, additional general obligation debt incurring capacity of the State under that act was estimated as of May 27, 2020 as follows:

| | |
|--|------------------------|
| Statutory general obligation debt limit..... | \$1,847,223,450 |
| Less: statutorily applicable general obligation debt (net)..... | (\$528,307,838) |
| Less: long-term contract liabilities* | <u>(\$100,062,000)</u> |
| Remaining statutory general obligation debt incurring capacity | <u>\$1,218,853,612</u> |

* In the opinion of the State Auditor, the State has long-term contract liabilities consisting of unused vacation leave for employees of approximately \$100 million 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 historical and current G.O. bond debt and debt service. Under the current debt structure, the State will pay off its G.O. bond debt in FY 2034 with final interest payments in FY 2035. Currently debt service is above \$400 million and it will remain so through FY 2026 then decline thereafter.³

Chart 1: General Obligation Debt and Debt Service



LEASE REVENUE (L.R.) BONDS

As shown in Table 3, the State Building Ownership Authority’s outstanding principal for L.R. bonds was \$273 million as of May 27, 2020. This amount did not include \$19 million in bonds authorized by the Legislature but not yet issued for Department of Alcoholic Beverage Control liquor stores. 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

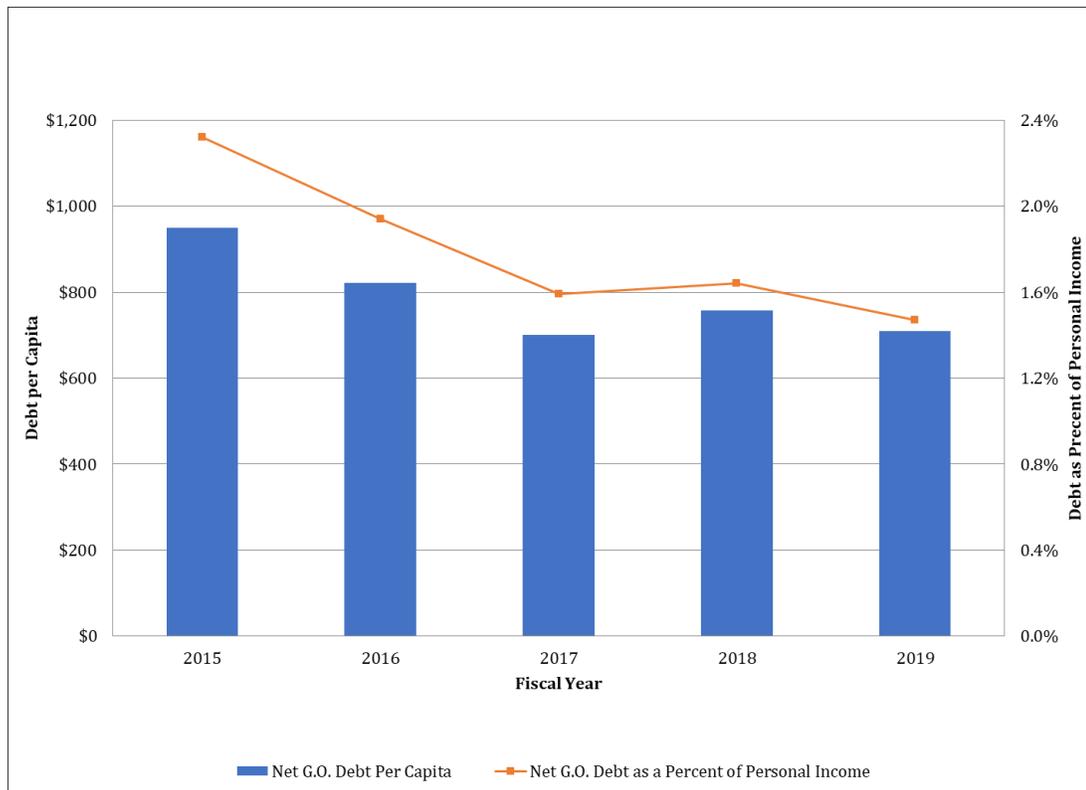
Table 3: Lease Revenue Bonds Principal Outstanding

| Series | Original Amount | Final Maturity Date May 15 | Principal Outstanding as of May 27, 2020 |
|--------|-----------------|----------------------------|--|
| 2009C | 16,715,000 | 2029 | 15,410,000 |
| 2009E | 89,470,000 | 2030 | 57,690,000 |
| 2010 | 36,735,000 | 2024 | 12,570,000 |
| 2011 | 5,250,000 | 2031 | 1,960,000 |
| 2012A | 15,610,000 | 2027 | 10,680,000 |
| 2012B | 11,700,000 | 2022 | 880,000 |
| 2015 | 30,015,000 | 2030 | 25,150,000 |
| 2016 | 98,150,000 | 2038 | 91,225,000 |
| 2017 | 25,910,000 | 2024 | 21,105,000 |
| 2018 | 18,465,000 | 2039 | 17,875,000 |
| 2020 | 18,865,000 | 2039 | 18,865,000 |
| Total | | | 273,410,000 |

CREDIT RATING AND DEBT RATIOS

When evaluating a state's debt, credit 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

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



Utah's FY 2019 G.O. debt per capita was \$709 and its debt as a percent of personal income was 1.47 percent (estimated as of May 27, 2020). 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.

Utah ranked near the middle among states with a AAA credit rating (the highest rating) from Moody's Investor Service on the following measures of debt affordability: net tax-supported debt (NTSD) per capita and NTSD as a percent of personal income (see Chart 3 below); and NTSD as a percent of state gross domestic product (GDP) and debt service as a ratio of state revenue (see Chart 4). (Note: Utah is shown in red and labeled, other AAA states are shown in red; remaining states are shown in black.)⁶

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

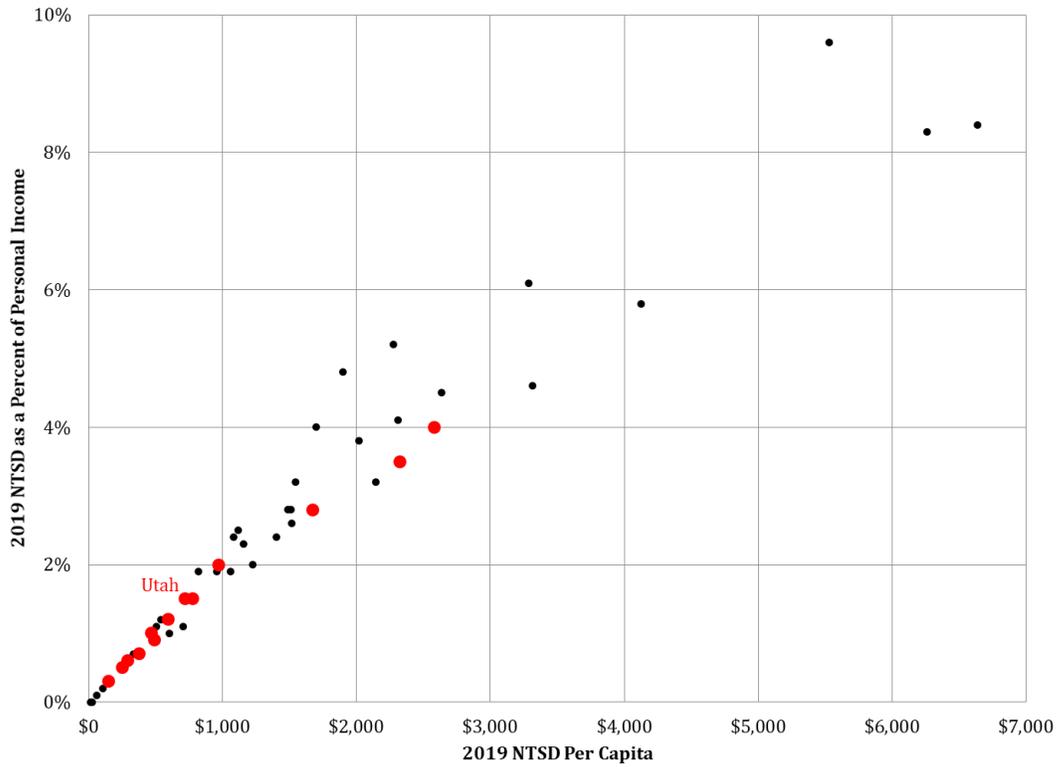
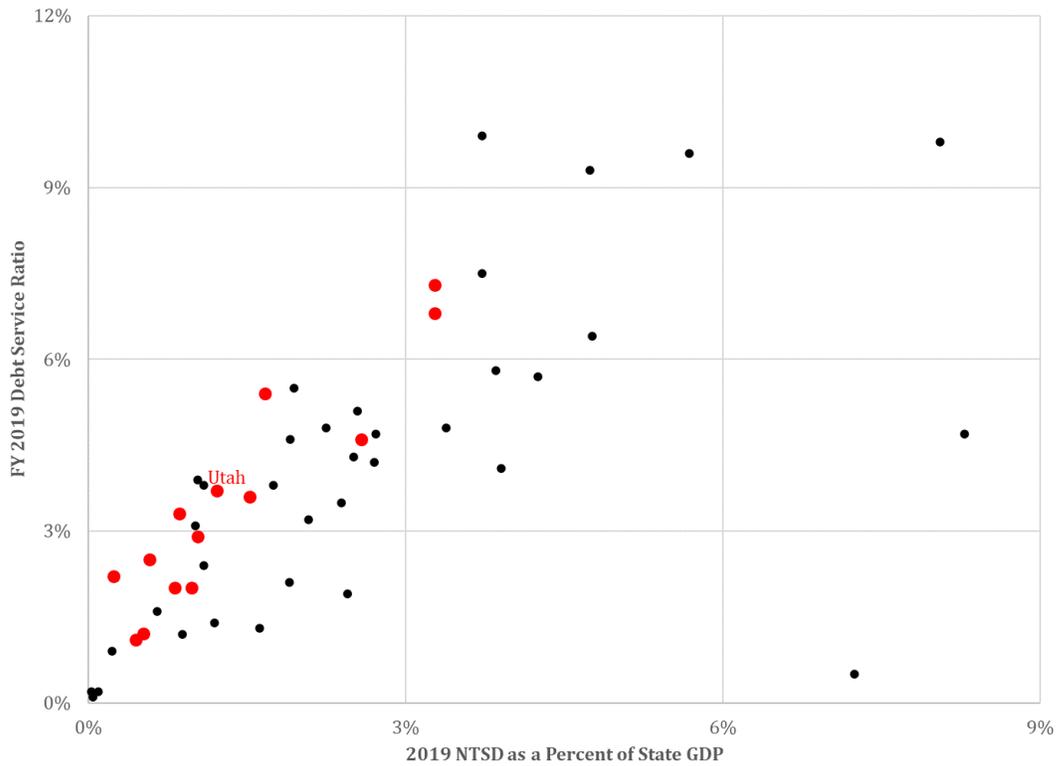


Chart 4: NTSD as a Percent of State GDP and Debt Service Ratio



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- ¹ State of Utah General Obligation Bonds, Series 2020B - Official Statement.
 - ² [Compendium of Budget Information](#) prepared by the Office of the Legislative Fiscal Analyst.
 - ³ Analysis by the Office of the Legislative Fiscal Analyst.
 - ⁴ State of Utah General Obligation Refunding Bonds, Series 2017 - Issue Summary prepared by Zions Public Finance, Inc.
 - ⁵ Utah Constitution, [Article XIV, Section 1](#).
 - ⁶ Medians – State Debt published by Moody’s Investors Service on May 12, 2020.