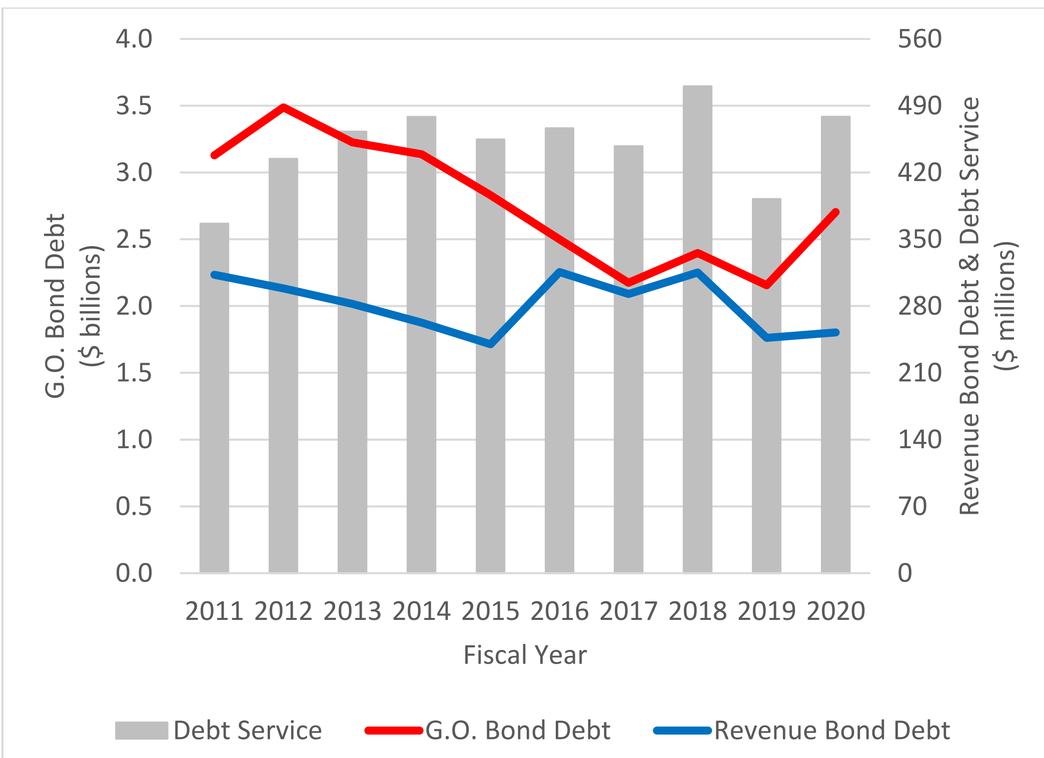
DEBT AND DEBT SERVICE OVERVIEW

OVERVIEW

The debt service budget contains appropriations to cover payment of interest and principal on the State's general obligation (G.O.) and revenue bond debt. General obligation bonds are backed by the full faith and credit of the State, and revenue bonds are secured by dedicated revenue streams such as enterprise fund revenue and lease payments. As shown in Figure 1, the State's FY 2020 debt levels and debt service ten-year ranges were as follows:

- G.O. bond debt: FY 2020, $2.7 billion; ten-year range, $2.2 billion - $3.5 billion;
- Revenue debt: FY 2020, $252.3 million; ten-year range, $240.0 million - $315.7 million; and
- Debt service: FY 2020, $478.5 million; ten-year range, $366.4 million - $510.4 million.[1,2]

Figure 1: Debt and Debt Service, 10-year History



During the 2020 General Session the Legislature authorized issuance of $89.5 million in general obligation bonds for highway projects (S.B. 115). During FY 2020 the State "cash defeased $78.4 million of highway bonds, and issued $600.1 million for highway construction projects and $295.7 million for the prison project."[3] As of June 30, 2020 the State had authorization to issue general obligation bonds for another $9.0 million for highway projects and $4.0 million for building projects.[4]

DEBT SERVICE BUDGET

The Legislature is required to "appropriate money each fiscal year sufficient to pay the principal, premium, and interest due on the state's outstanding general obligation bonds before making any other appropriation in the fiscal year" (UCA 63J-1-205.1). The Legislature appropriates to a single debt service line item which includes five programs that distinguish the purposes for which bonds might be issued: G.O. – Higher Education, G.O. – Public Education, G.O. – State Government, G.O. – Transportation, and Revenue Bonds. In conjunction with the statutory requirement to pay debt service first, in its December 16, 2020 meeting the Executive Appropriations Committee directed that adjustments to the debt service budget for FY 2021 and FY 2022 be included in H.B. 6, "Infrastructure and General Government Base Budget," 2021 General Session as shown in Table 1.

Table 1: Adjustments to Debt Service included in H.B. 6, 2021 General Session[5]

	FY 2021			FY 2022		
	Approp.	Adjustment in H.B. 6	Revised Approp.	Base	Adjustment in H.B. 6	Revised Approp.
G.O. Bonds – State Government						
General Fund	37,534,600	0	37,534,600	37,534,600	34,340,800	71,875,400
General Fund, One-time	(283,800)	4,164,100	3,880,300		0	
Beginning Nonlapsing	764,900	128,100	893,000	764,900	128,100	893,000
Closing Nonlapsing	(764,900)	(128,100)	(893,000)	(764,900)	(128,100)	(893,000)
Total	*37,250,800*	*4,164,100*	*41,414,900*	*37,534,600*	*34,340,800*	*71,875,400*
G.O. Bonds – Transportation						
Transportation Investment Fund of 2005	356,407,200	2,647,000	359,054,200	356,407,200	(127,400)	356,279,800
County of the First Class Highway Projects Fund	7,927,900	(400)	7,927,500	7,927,900	(148,500)	7,779,400
General Fund, One-time	10,610,500	11,100	10,621,600		8,189,800	8,189,800
Federal Funds, One-time	10,610,500	11,100	10,621,600		8,189,800	8,189,800
Transfers	(10,610,500)	(11,100)	(10,621,600)		(8,189,800)	(8,189,800)
Beginning Nonlapsing	7,234,800	898,100	8,132,900	7,234,800	898,100	8,132,900
Closing Nonlapsing	(7,234,800)	(898,100)	(8,132,900)	(7,234,800)	(898,100)	(8,132,900)
Total	*374,945,600*	*2,657,700*	*377,603,300*	*364,335,100*	*7,913,900*	*372,249,000*
Revenue Bonds Debt Service						
Federal Funds	1,379,400	2,900	1,382,300	1,379,400	(21,000)	1,358,400
Dedicated Credits Revenue	28,497,300	1,247,700	29,745,000	28,497,300	926,300	29,423,600
Beginning Nonlapsing	12,541,300	(177,300)	12,364,000	12,541,300	1,073,300	13,614,600
Closing Nonlapsing	(12,541,300)	(1,073,300)	(13,614,600)	(12,541,300)	(1,978,600)	(14,519,900)
Total	*29,876,700*	*0*	*29,876,700*	*29,876,700*	*0*	*29,876,700*
Grand Total	***442,073,100***	***6,821,800***	***448,894,900***	***431,746,400***	***42,254,700***	***474,001,100***

The adjustments from the General Fund in the G.O. Bonds – State Government program and from the Transportation Investment Fund of 2005 in the G.O. Bonds – Transportation program were due to the State issuing General Obligation Bonds, Series 2020B after the close of the 2020 General Session. The adjustments from the General Fund, federal funds, and transfers in the G.O. Bonds – Transportation program relate to Build America Bonds subsidies which are explained later in this brief.

The State does not currently have any outstanding general obligation bonds related to higher education or public education projects. All outstanding bonds under G.O. – State Government have been issued for construction of the prison. Table 2 shows actual expenditures for debt service in FY 2020 of $478.5 million and revised appropriations for FY 2021 of $448.9 million and FY 2022 of $474.0 million.

Table 2: Debt Service Sources of Finance and Uses of Funds[2]

Source of Finance	FY 20 Actual	FY 21 Rev. App.	FY 22 Appropriated
General Fund	71,534,600	37,534,600	71,875,400
General Fund, One-time	(33,227,000)	14,501,900	8,189,800
Trans. Inv. Fund of 2005	398,743,300	359,054,200	356,279,800
Federal Funds	0	1,379,400	1,358,400
Federal Funds, One-time	14,430,800	10,624,500	8,189,800
Dedicated Credits Revenue	28,592,700	29,745,000	29,423,600
County of the First Class	12,262,300	7,927,500	7,779,400
Transfers	(13,028,600)	(10,621,600)	(8,189,800)
Beginning Nonlapsing	20,541,000	21,389,900	22,640,500
Closing Nonlapsing	(21,389,900)	(22,640,500)	(23,545,800)
Total	*478,459,200*	*448,894,900*	*474,001,100*
Use of Funds			
G.O. – State Government	25,150,900	41,414,900	71,875,400
G.O. – Transportation	423,136,100	377,603,300	372,249,000
Revenue Bonds	30,172,200	29,876,700	29,876,700
Total	*478,459,200*	*448,894,900*	*474,001,100*

GENERAL OBLIGATION BONDS

Outstanding G.O. Bonds. The State's G.O. bond debt as of June 30, 2020 was $3.1 billion. In addition to previously issued bonds and the Series 2020B bonds the debt included $239.9 million in unamortized bond premium. The State paid $308.0 million toward G.O. principal on July 1, 2020. Table 3 provides detail on outstanding G.O. bonds.

Table 3: General Obligation Bonds Principal Outstanding[6]

	Series	Original Principal Amount	Final Maturity Date July 1	Principal Outstanding as of June 30, 2020	Principal Payment 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

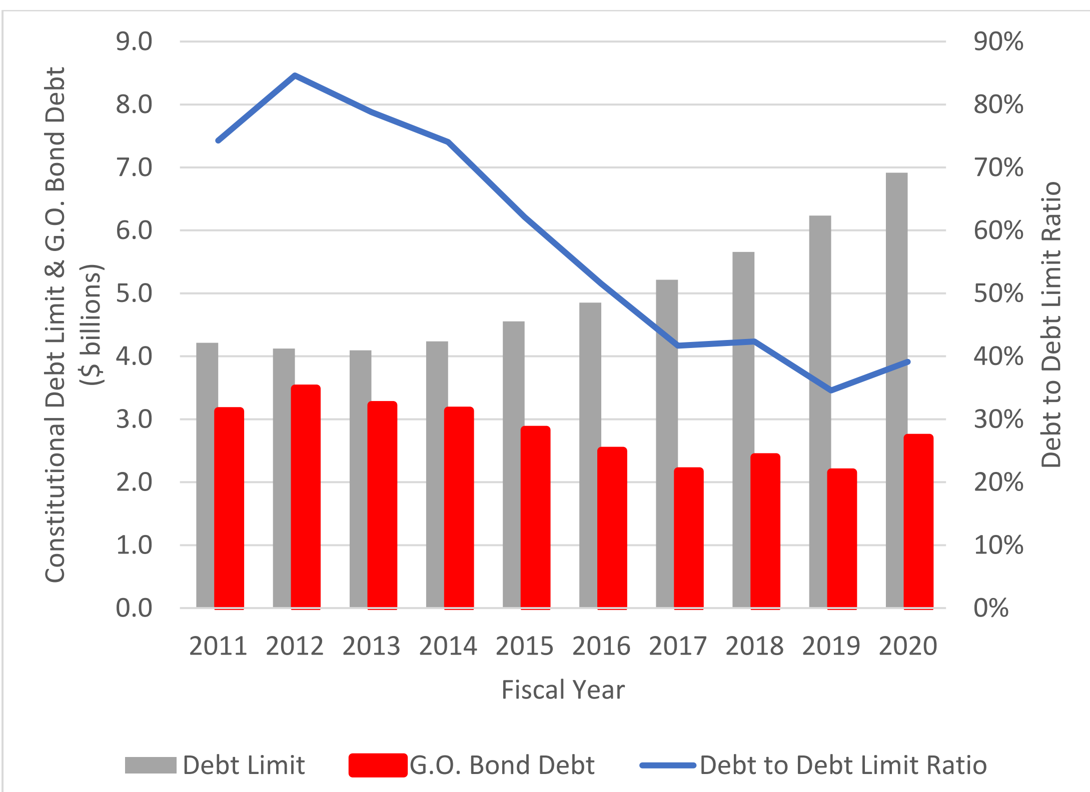
** the series included funds for highways (shown in the table) and for buildings (paid off)

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 most recent defeasance occurred in FY 2020 when the State defeased $78.4 million in highway bonds. Prior to that 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.[3,7]

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 $10.6 million from the General Fund for FY 2021 and $8.2 million for FY 2022 to match estimated subsidies. Upon receipt of the subsidies the General Fund appropriations to debt service will be transferred back to the General Fund.[2]

Constitutional Debt Limit and G.O. Bond Debt. The State's constitution caps total general obligation debt at 1.5 percent of the value of the taxable property in the State. For FY 2020 the State's G.O. bond debt to debt limit ratio was 39 percent. Figure 2 shows a 10-year history of constitutional debt limit, G.O. bond debt, and the ratio of debt to debt limit.

Figure 2: Constitutional Debt Limit and G.O. Bond Debt, 10-year History



REVENUE BONDS

As shown in Table 3, the State Building Ownership Authority's outstanding principal for revenue bonds as of June 30, 2020 was $273.4 million. Under the current schedule (assuming no additional bonds issued), the State will make a final revenue bond debt payment on May 15, 2039.

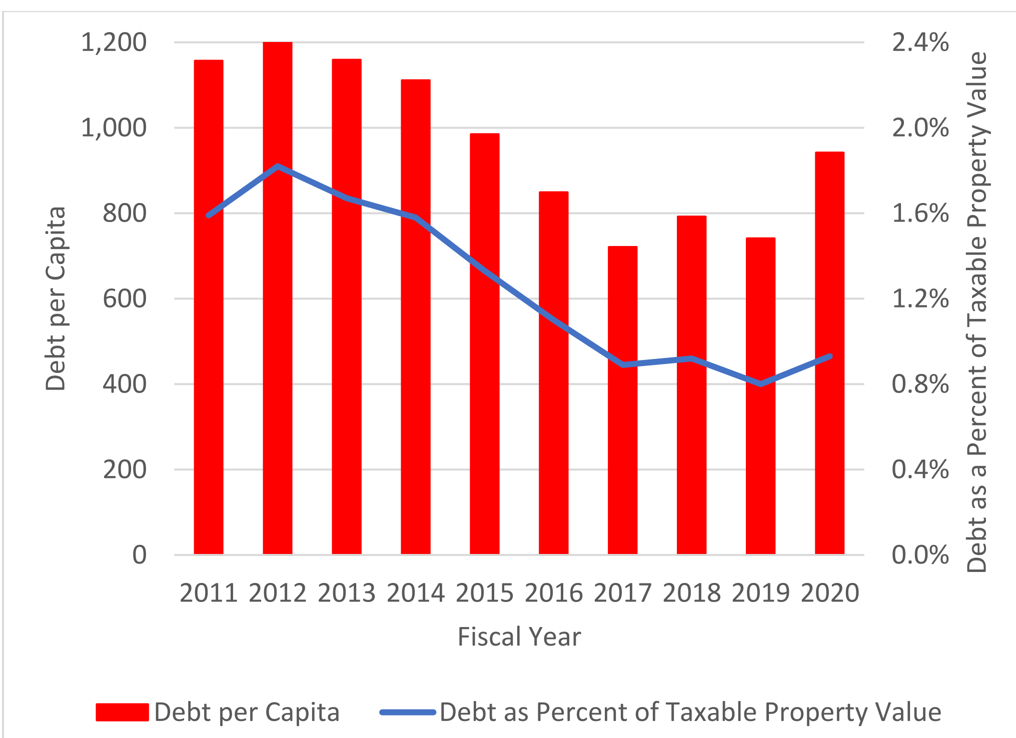
Table 4: Revenue Bonds Principal Outstanding[8]

Series	Original Principal Amount	Final Maturity Date May 15	Principal Outstanding as of June 30, 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 taxable property value. Figure 3 shows Utah's G.O. debt affordability as measured by these two ratios for the past ten fiscal years.

Figure 3: Net G.O. Debt Per Capita and as a Percent of Taxable Property Value[9]



Utah's FY 2020 G.O. debt per capita was $942 and its debt as a percent of taxable property value was 0.93 percent. Both measures are at their highest levels since FY 2016, but they 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.)[10]

Figure 4: NTSD Per Capita and NTSD as a Percent of Personal Income

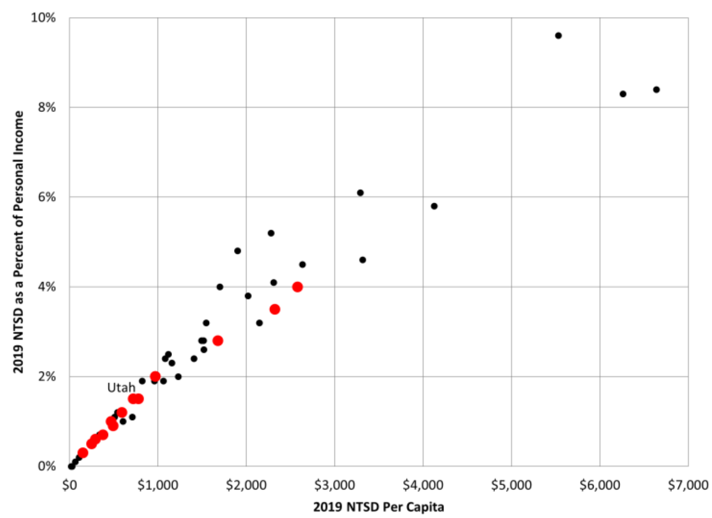
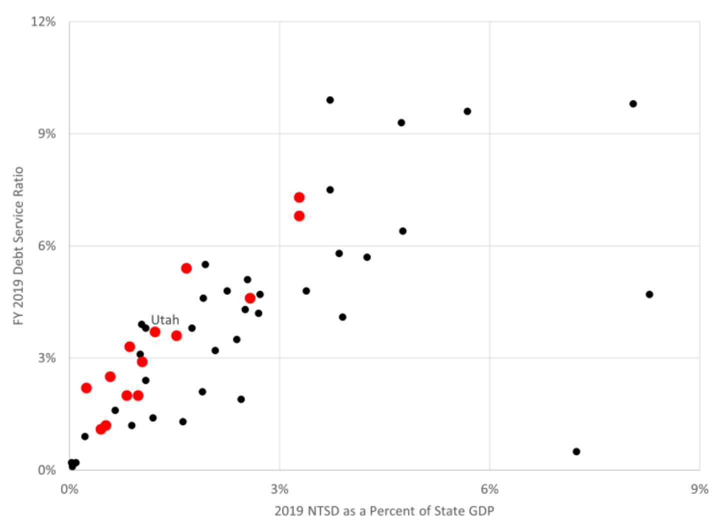


Figure 5: NTSD as a Percent of State GDP and Debt Service Ratio



[1] State of Utah Comprehensive Annual Financial Report 2020 (CAFR), p. 230-231.

[2] Compendium of Budget Information (COBI) for Infrastructure and General Government – Debt Service – Debt Service prepared by the Office of the Legislative Fiscal Analyst (LFA).

[3] CAFR, p. 7.

[4] CAFR, p. 106.

[5] COBI and analysis by LFA.

[6] CAFR, p. 106 and analysis by LFA.

[7] State of Utah General Obligation Refunding Bonds, Series 2017 - Issue Summary prepared by Zions Public Finance, Inc.

[8] CAFR, p. 109.

[9] CAFR, p. 228-229.

[10] Medians – State Debt published by Moody's Investors Service on May 12, 2020.