



UTAH STATE TREASURER  
**MARLO M. OAKS**

# 2022 Debt Affordability Study

**Keeping Utah Fiscally Strong**

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Deputy Treasurer

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Policy & Communications Deputy

## 2022 Debt Affordability Study

### **2022 HB82**

- Strengthens governance and oversight of State's debt activities
- Creates the State Finance Review Commission
- Requires state treasurer to publish Debt Affordability Study by Nov. 1
  - Send to State Finance Review Commission and Revenue & Taxation Interim Committee

# Purpose

- Inform the legislature, investors, rating agencies, and Utahns on the State's debt obligations and best practices
- Does not constrain or compel policymakers in any way
- Assist in Utah's legacy of conservative debt use, while also being pragmatic about the critical role of debt

# Scope

Limited to tax-supported debt of the State and State agencies

- GO Debt
- Lease Revenue Bonds

Long-term liabilities

It does not contemplate debt-incurring activities of local municipalities nor any affiliated bonding political subdivisions of the State

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# Treasurer Perspectives on Debt

## Methods of Financing

- Pay cash out of current revenue
- Set money aside for future acquisitions
- Borrow based on anticipated revenue

Prudent use of debt during an economic downturn can help Utah accomplish:



Reduce pay-as-you-go budget expenditures to correspond with reduced revenues.



Bolster employment and economic activity when it is needed most through the continuation of public infrastructure projects.



Lock in construction costs at a time when they may be lower than normal.



Finance when interest rates are likely to be lower than normal.

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# Treasurer Perspectives on Debt

## When is Debt appropriate?

- Essential projects too large for pay-as-you-go
- Not economical to piecemeal as budgeted revenues become available
- Generational equity
- During a recession when construction costs are higher than State's borrowing rate
- Significant depletion of State's rainy day funds

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# Treasurer Perspectives on Debt

- Short amortization of debt
- AAA credit ratings
  - Considerations: economy, financial/budgetary performance, governance, debt liability profile
- ESG Ratings
- Public-Private Partnerships (P3s)
- Market Timing

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# Debt Portfolio Overview

## GO Bonds

- Last time State issued GO bonds was June 2020
  - True Interest Cost (TIC): 1.16%
  - TIC of another state 5 days later: 5.82%
- FY 2022 GO Debt Burden: \$2.3 billion
  - Interest payment of almost \$39 million on January 1, 2023
  - Interest payment of almost \$39 million on July 1, 2023, along with a principal payment of \$336.88 million
  - If no further action is taken, Utah's GO debt years will decline over \$300 million each year for the next three years

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# Debt Portfolio Overview

## SBOA Lease Revenue

- FY 2022: \$49.9 million in proceeds, TIC 3.34%, 20-year amortization. (Construction of 4 Utah DABS stores)
- June 30, 2022 Outstanding Principal & Premium of all SBOA debt: \$288.8 million
- There are \$15.7 million in outstanding legislative authorizations for lease-revenue bonds
  - Generally issuing less than \$50 million in bonds is not an efficient transaction

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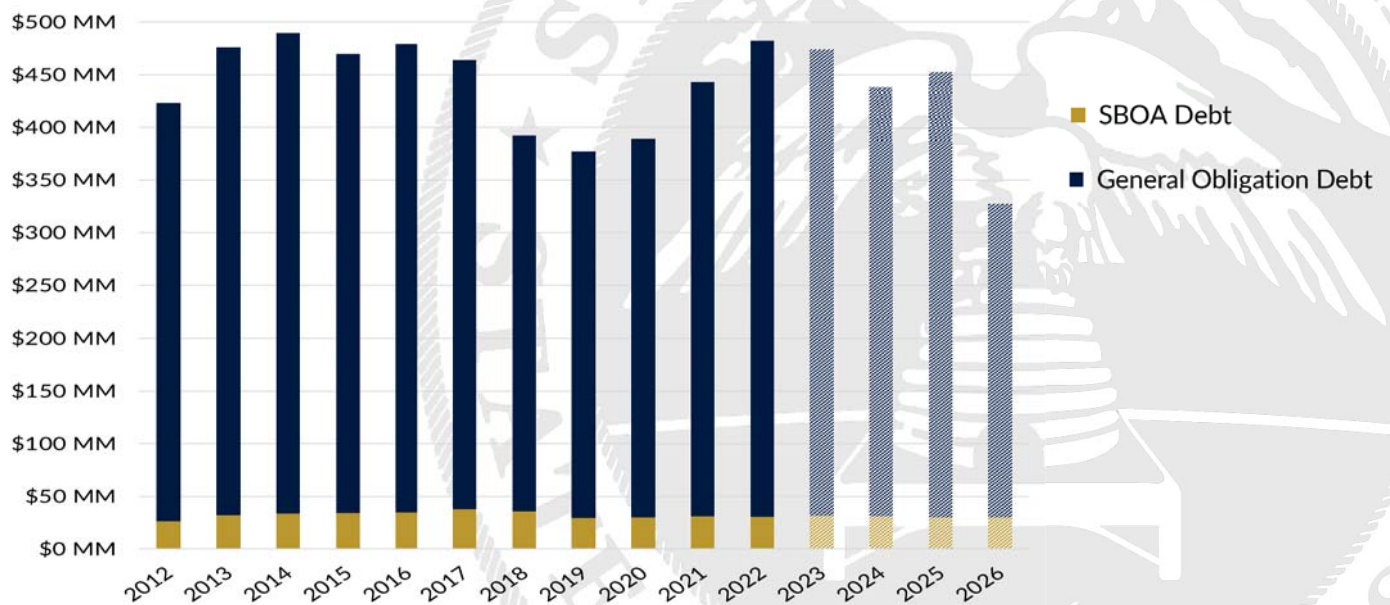
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# State Debt Burden

- 2018 – 2020: State issued GO bonds each year to fund road construction and new State prison facility.
- These additional bond issues kept total debt outstanding between \$2.5 billion and \$3.5 billion each year since 2015.
- No new GO debt has been issued since June 2020, allowing State debt to fall below \$2.5 billion in 2023

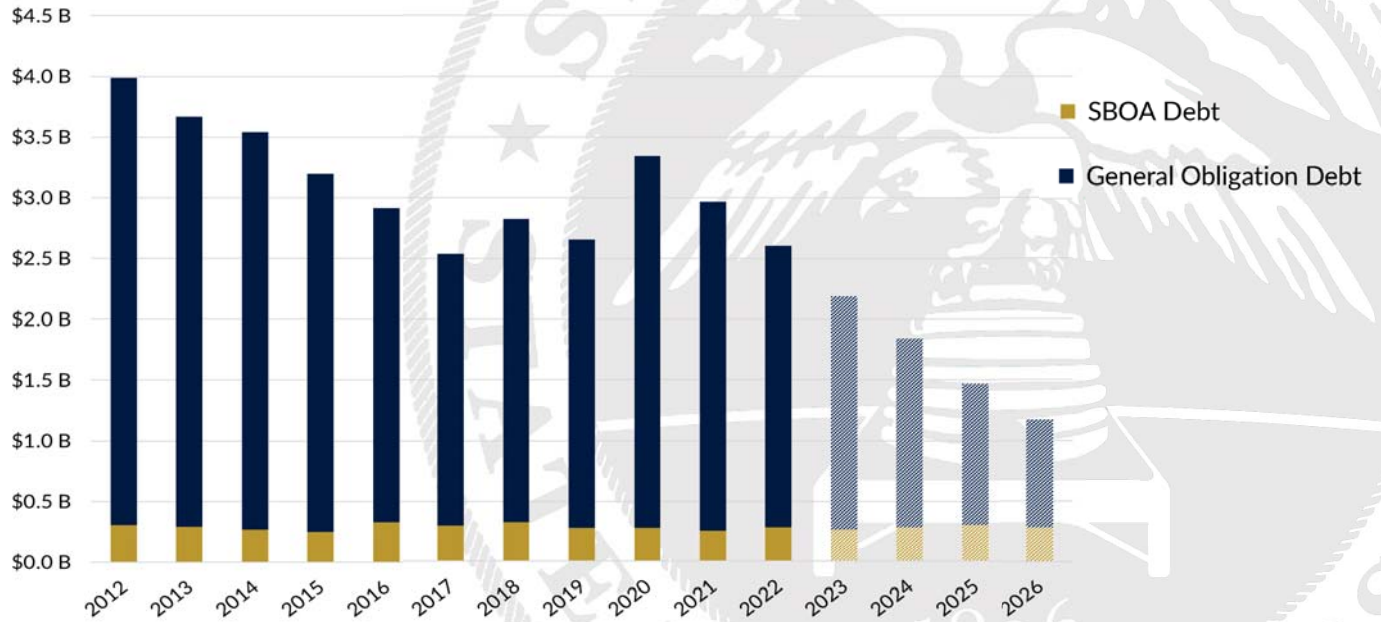
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## Annual Debt Service of Net-Tax Supported Debt



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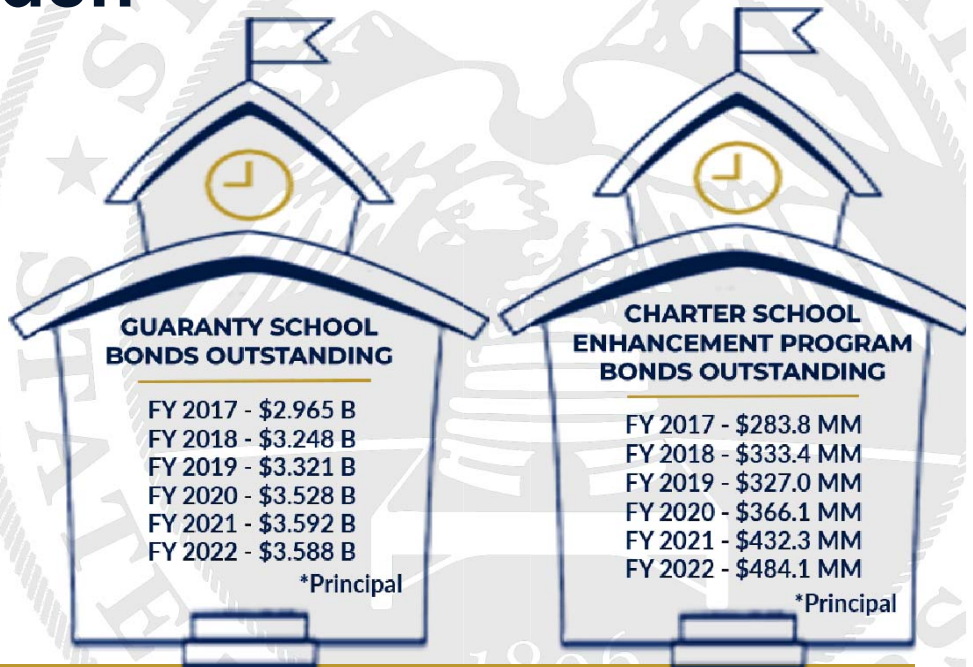
# Annual Debt Service of Net-Tax Supported Debt



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# State Debt Burden

- School Bond Guaranty Program
- Moral Obligation Bonds
- Charter School Credit Enhancement



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# State Debt Burden

- Water Recapitalization Revenue Bonds
- Board of Higher Education



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# Other Long-Term Liabilities

- Employee Pension
  - Utah pension plans recognized among best-funded in
  - URS has begun using relatively conservative return assumptions, but was able to increase the Plan's Fiduciary Net Position as a percentage of Total Pension Liability to 105.3% in 2021 (up from 96.6% in 2020)
  - Rating agencies generally consider a funding ratio of above 80% to be sound for government pensions.
- Other Long-Term Liabilities
  - State Employee OPEB plan & Elected Officials OPEB plan

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# Key Debt Burden Ratios

**Table 2. Comparison of Debt Ratios for AAA States**

State	Net Tax-Supported Debt Per Capita	Ranking (All 50 States)	Net-Tax Supported Debt as a % of 2021 Personal Income	Ranking (All 50 States)	Net Tax-Supported Debt as a % of 2021 State GDP	Ranking (All 50 States)
Delaware	\$4,143	46	7.00%	46	5.10%	44
Maryland	\$2,818	41	4.10%	38	4.00%	40
Virginia	\$1,823	35	2.80%	32	2.70%	33
All States Mean	\$1,772		2.79%		2.64%	
All States Median	\$1,179		2.10%		2.05%	
<b>AAA States Mean</b>	<b>\$1,136</b>		<b>1.82%</b>		<b>1.60%</b>	
Georgia	\$1,087	23	2.00%	24	1.70%	23
<b>Utah</b>	<b>\$899</b>	<b>22</b>	<b>1.60%</b>	<b>22</b>	<b>1.40%</b>	<b>21</b>
Florida	\$756	18	1.30%	19	1.40%	20
<b>AAA States Median</b>	<b>\$686</b>		<b>1.20%</b>		<b>1.10%</b>	
North Carolina	\$686	17	1.20%	16	1.10%	17
Texas	\$682	15	1.10%	15	1.00%	14
South Dakota	\$561	13	0.90%	13	0.80%	12
Iowa	\$408	10	0.75%	9	0.65%	7
Missouri	\$398	9	0.70%	7	0.70%	8
Tennessee	\$285	6	0.50%	6	0.50%	6
Indiana	\$217	5	0.40%	5	0.40%	5

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# Key Debt Burden Ratios

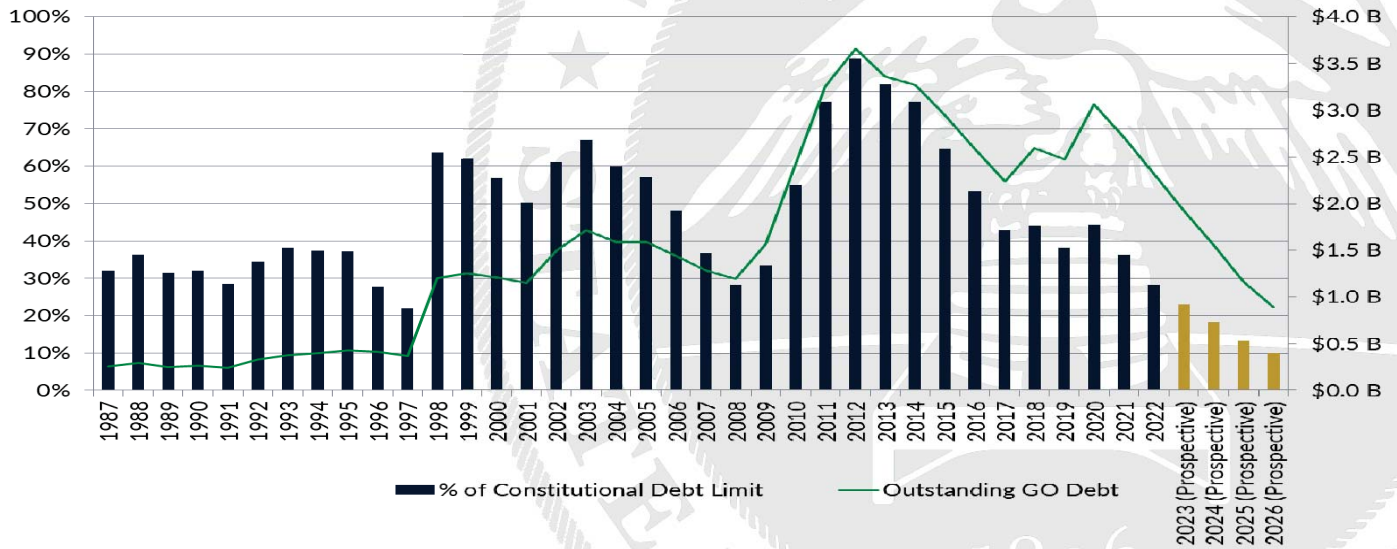
**Table 3. Comparison of Debt Service Ratios as a Percentage of Own-sourced revenue for AAA Rated States**

State	FY 2019 Debt Ratio	2019 Ranking (All 50 States)	FY 2020 Debt Ratio	2020 Ranking (All 50 States)	FY 2021 Debt Ratio	2021 Ranking (All 50 States)
Maryland	7.89%	42	7.81%	41	8.05%	41
Delaware	6.98%	41	6.70%	38	7.44%	40
Virginia	5.90%	34	5.83%	36	6.56%	36
Georgia	5.44%	31	5.40%	32	5.76%	32
All States Mean	5.00%		4.60%		5.00%	
<b>Utah</b>	<b>4.55%</b>	<b>28</b>	<b>5.05%</b>	<b>30</b>	<b>4.48%</b>	<b>25</b>
<b>AAA States Mean</b>	<b>4.00%</b>		<b>3.95%</b>		<b>3.99%</b>	
All States Median	4.00%		4.00%		4.50%	
Missouri	3.93%	21	3.27%	18	2.87%	17
<b>AAA States Median</b>	<b>3.77%</b>		<b>3.38%</b>		<b>3.37%</b>	
Florida	3.77%	20	4.47%	25	4.28%	24
North Carolina	3.39%	18	3.38%	19	3.37%	20
Texas	3.06%	17	3.10%	17	3.06%	18
Iowa	2.22%	13	2.14%	11	2.14%	11
South Dakota	2.08%	12	1.65%	8	1.58%	7
Indiana	1.51%	7	1.35%	7	1.16%	4
Tennessee	1.31%	5	1.21%	5	1.15%	3

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# Constitutional Debt Limit

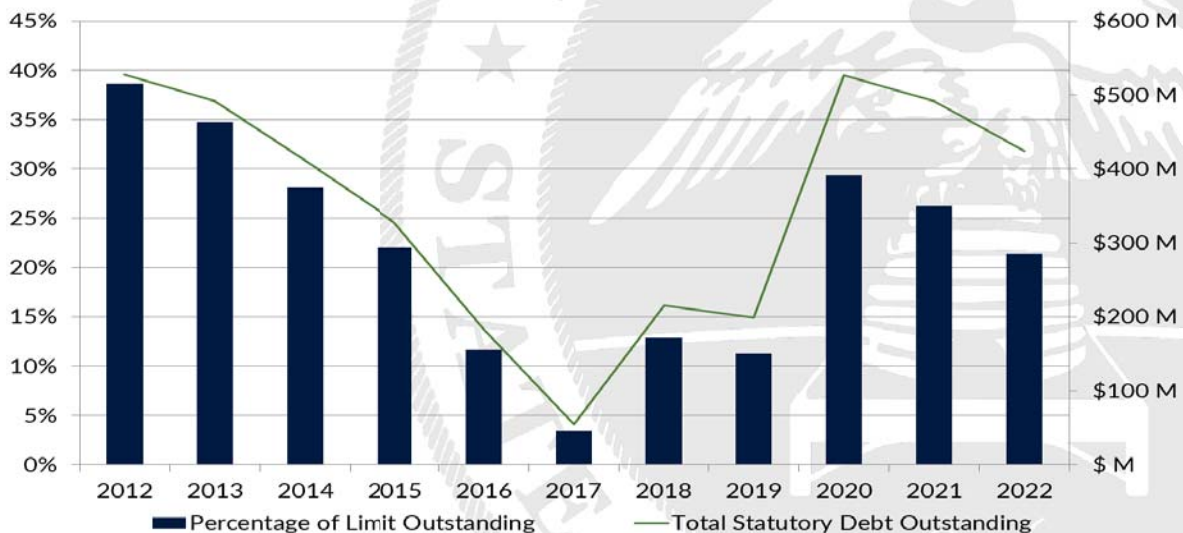
Figure 8. Total GO Debt Outstanding and as a Percentage of Constitutional Debt Limit (Fiscal Year)



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# Constitutional Debt Limit

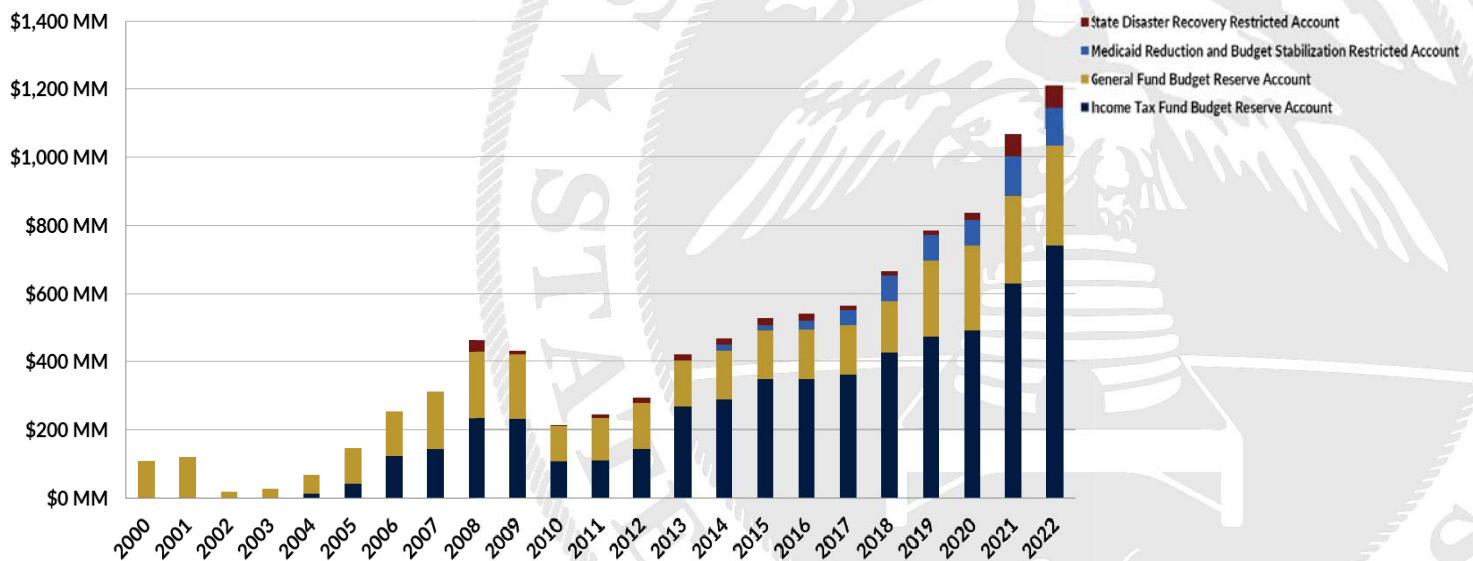
Figure 9. GO Debt Subject to Statutory Debt Limit and Percentage Outstanding (Fiscal Year)



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# Rainy Day Funds

Figure 10. Utah Rainy Day Funds, FY 2000 - FY 2022



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## State Revenue

- Double-digit, year-over-year General Fund and Income Tax Fund revenue growth in FY 2021 & FY 2022
- With the FY 2022 revenue bubble, the State can expect another year of substantial one-time funding available for use in the FY 2023 and FY 2024 budget cycles.
- FY 2024 ongoing revenue picture is considerably more unclear

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# Federal Stimulus Programs

- Utah received \$1.25 billion in Coronavirus Relief Fund through the CARES Act (including \$562 million made available to local governments)
- Utah received more than \$2.6 billion in State and Local Fiscal Recovery Funds (including \$1.1 billion made available to local governments) and Capital Projects Fund through ARPA
- Known estimates for Utah funding allocations for the Infrastructure Investment and Jobs Act total \$4.18 billion

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# Conclusion

- Strong revenues in 2022 suggest the State is not yet at a point where bonding is necessary to bolster infrastructure spending.
- In addition, labor, material, and interest costs are still high relative to recent history.
- However, if a recession materializes, revenues of the State and infrastructure costs may decrease rapidly, making bonding a more attractive option.

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