

Office of the  
Legislative Fiscal Analyst

## **FY 2001 Budget Recommendations**

Joint Appropriations Subcommittee for  
Capital Facilities and Administrative Services

Utah Department of Administrative Services  
**Debt Service**

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**1.0 Summary: Debt Service**

Debt Service is made up of interest and principal due on the State's bonded indebtedness. The State uses long term debt to finance large capital expenditures, including new construction, major remodeling and highway projects. Dedicated revenue streams such as enterprise fund revenue or dedicated lease payments secure some bonds. Debt Service on Revenue bonds and General Obligation bonds are included in this appropriation.

	<b>Analyst FY 2001 Base</b>	<b>Analyst FY 2001 Changes</b>	<b>Analyst FY 2001 Total</b>
<b>Financing</b>			
General Fund	\$71,206,700	\$2,017,200	\$73,223,900
Uniform School Fund	20,152,500		20,152,500
Centennial Highway Fund	38,842,000	2,262,400	41,104,400
Dedicated Credits - Revenue Bonds	23,388,600	176,900	23,565,500
<b>Total</b>	<u>\$153,589,800</u>	<u>\$4,456,500</u>	<u>\$158,046,300</u>
<b>Programs</b>			
Debt Service	<u>\$153,589,800</u>	<u>\$4,456,500</u>	<u>\$158,046,300</u>
<b>Total</b>	<u>\$153,589,800</u>	<u>\$4,456,500</u>	<u>\$158,046,300</u>

**2.0 Issues: Debt Service**

The Analyst is recommending an increase of \$4,456,500 to cover additional costs to meet debt service obligations in Fiscal Year 2001.

<b>General Fund .....</b>	<b>\$2,017,200</b>
<b>Centennial Highway Fund .....</b>	<b>\$2,262,400</b>
<b>Dedicated Credits .....</b>	<b>\$176,900</b>

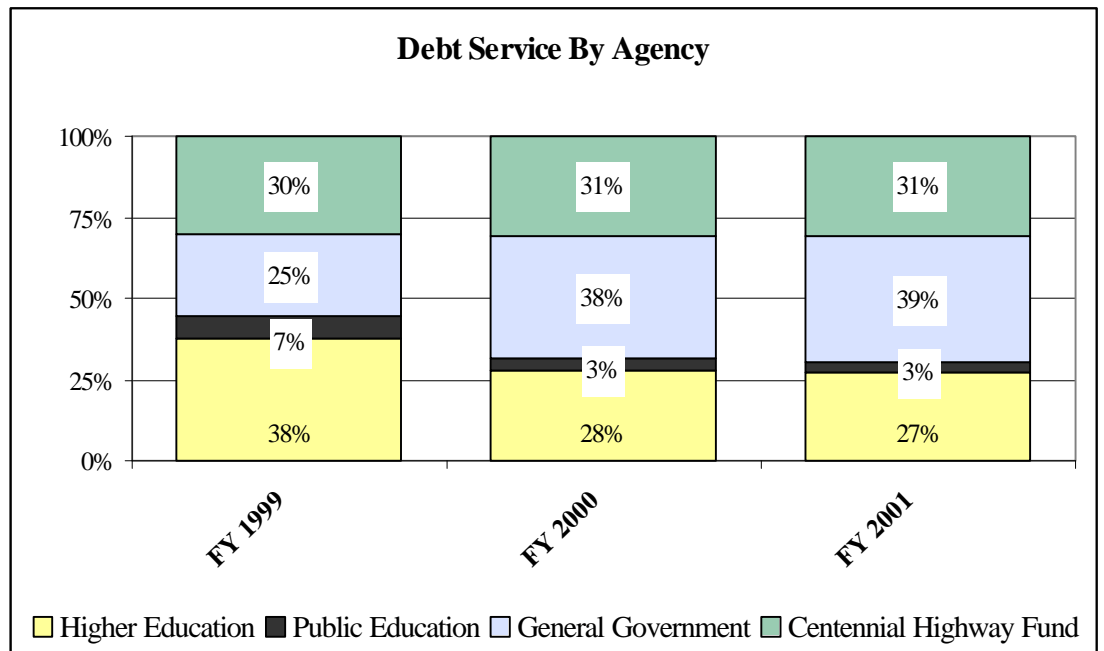
### 3.0 Programs: Debt Service

**3.1 Recommendation** The Analyst is recommending a base budget as requested by the Division of Finance.

	FY 1999	FY 2000	FY 2001	Est/Analyst
<b>Financing</b>	<b>Actual</b>	<b>Estimated</b>	<b>LFA</b>	<b>Difference</b>
General Fund (ongoing)	\$79,951,300	\$71,206,700	\$73,223,900	\$2,017,200
Uniform School (ongoing)	79,951,300	20,152,500	20,152,500	0
Dedicated Credits - Rev Bonds		23,388,600	23,565,500	176,900
Centennial Highway	8,426,400	38,842,000	41,104,400	2,262,400
Beginning Non-lapsing	18,078,600	1,529,200		(1,529,200)
<b>Total</b>	<b>\$38,097,300</b>	<b>\$155,119,000</b>	<b>\$158,046,300</b>	<b>\$2,927,300</b>
<b>Expenditures</b>				
G.O. Bond Principal	\$73,785,000	\$77,200,000	\$81,325,000	\$4,125,000
G.O. Bond Interest	56,213,000	54,207,900	52,366,400	(1,841,500)
G.O. Bond Fees	1,878,100	99,500	566,400	466,900
Revenue Bond Principal	8,375,000	11,105,000	11,668,400	563,400
Revenue Bond Interest	12,337,100	12,441,400	12,054,300	(387,100)
Revenue Bond Fees	951,800	65,200	65,800	600
<b>Total</b>	<b>\$153,540,000</b>	<b>\$155,119,000</b>	<b>\$158,046,300</b>	<b>\$2,927,300</b>

### 3.2 G. O. Debt Distribution

Higher Education and the Centennial Highway project account for nearly 70 percent of all General Obligation bonding over the last two years.



### 3.3 Board of Bonding Commissioners

General obligation debt is issued and managed under the authority of the Board of Bonding Commissioners, which consists of the Governor, the Treasurer, and a member of a political party different from that of the Governor (UCA 63-56a-1).

*Constitutional debt limit*

The State’s constitutional debt limit caps total general obligation debt at 1.5 percent of total fair market value of taxable property. For FY 2001, the Division of Finance estimates this limit to be \$806.6 million after deducting outstanding debt totaling \$1.212 billion.

<b>Constitutional Limitations</b>	<b>FY 1999</b>	<b>FY 2000</b>
Fair Market Value	\$125,705,066,667	\$134,600,533,333
Constitutional Bonding Limit	1,885,576,000	2,019,008,000
Beginning G.O. Debt	1,202,310,000	1,251,525,000
Principal Payment	(73,785,000)	(77,200,000)
Bonds Sold	265,000,000	38,000,000
Obligations Retired	(210,000,000)	
Outstanding Principal	1,183,525,000	1,212,325,000
<i>Additional Bonding Capacity</i>	<i>\$702,051,000</i>	<i>\$806,683,000</i>

*Statutory debt limit*

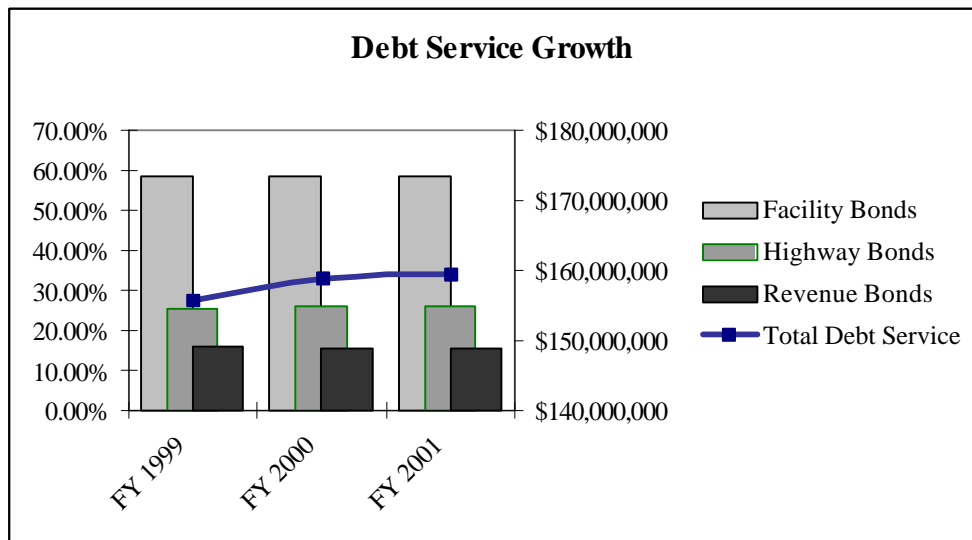
The State Appropriations and Tax Limitation Act (UCA 59-17a-112) further limits general obligation debt to 20 percent of the allowable spending limit from the General Fund, Uniform School Fund, and Transportation Fund, less debt service. The limitation is established using a formula that includes population growth, inflation, and 1985 appropriations as a baseline.

For FY 2001, the statutory general obligation debt limit is \$734 million. Transportation bonds are exempted from the statutory limitation, leaving outstanding general obligation debt of \$304 million to apply against the limit. The State has \$430 million in additional FY 2001 general obligation bonding capacity.

<b>Statutory Limitations</b>	<b>FY 1999</b>	<b>FY 2000</b>
Appropriations Limitation	\$3,529,560,000	\$3,671,960,000
Statutory Bonding Limit	705,912,000	734,392,000
Outstanding Principal	1,183,525,000	1,212,325,000
Exempt Trans. Bonds	(600,000,000)	(908,000,000)
Non-Exempt Bonds	583,525,000	304,325,000
<i>Additional Bonding Capacity</i>	<i>\$122,387,000</i>	<i>\$430,067,000</i>

*Debt Service Growth*

Debt service for FY 2001 will total approximately \$158 million, with just over half of the expenditure going to principal payment. Debt service has remained relatively flat over the past three years with total expenditures increasing only one-quarter of one percent.



### 3.4 Capital Facility Financing

During the 1996 General Session, the following document was accepted as general guidelines for issuance of state debt.

**General Obligation Bonds** - G.O. debt is secured by the full faith and credit of the State and its ability to tax its citizens. General Obligation debt is counted against the state’s constitutional and statutory debt limits. In recent years, the State of Utah issued General Obligation Bonds that mature in six years. Other states and government entities typically issue General Obligation Bonds with terms of 10 to 20 years. Debt service interest begins to accrue when the bonds are issued.

**Lease Revenue Bonds** - The State Building Ownership Authority, the official owner of state facilities, issues revenue bonds. Revenue flows from a lease to the occupying agency from the Authority. The Authority pays debt service using rents it collects from the user. A pledge of future rental payments (subject to legislative appropriation) and a mortgage on the financed project secure debt.

Since the full faith and credit of the state nor its taxing power do not secure lease revenue bonds, it is not counted against statutory debt limits. However, subsection 63-9a-6(2) states the debt issued by the Building Ownership Authority plus other debt issued by the State cannot exceed 1.5 percent of the value of the taxable property of the state. A statutory change would be required for BOA bonds if G.O. bonds were authorized up to the constitutional limit. Unlike general obligation bonds, revenue bonds are typically issued with a repayment period of 20 years. An additional amount is borrowed to cover interest payments during the construction period.

**Revenue Bonds** - This type of bond may be issued when a revenue stream can be identified and legally restricted for repayment of the bonds. The only state facilities which have been financed using revenue bonds have been for State Liquor Stores using sales revenue and higher education facilities where the revenues pledged have included student fees, auxiliary services revenues, or reimbursed overhead. In order for the bonds to be marketable, the pledged revenue stream must be substantially larger than the debt service requirements. This type of debt is not secured by the full faith and credit of the state nor its taxing power and is exempted from calculations of the state's constitutional and statutory debt limits.

**Certificates of Participation (COP's)** - COP's are very similar to lease revenue bonds with one major difference: instead of being a bond issued directly by a governmental entity, COP's represent an undivided interest in a lease agreement. This lease agreement may be entered into by any entity that has the ability to lease space. Although either the state or a private entity may initially hold title to the facility, title must pass to the state by the end of the lease term in order for the interest on the COP's to be exempt from federal income tax.

**Summary** - All of the above are accounted for as debt on the state's accounting records and are considered to be debt by national rating agencies. In addition, the State Auditor issued an opinion in December of 1995 that any General Fund, Uniform School Fund, or Transportation Fund used to retire lease purchase and revenue bond obligations should be counted in the spending limitation formula.

*Relative Costs*

The initial cost associated with various options for financing projects are listed below, ranked from least expensive to most expensive. Specific projects may have circumstances that would affect this ranking. The order for revenue bonds and certificates of participation depends on the nature of the project and the source of funding for the debt service.

1. Cash (state funds)
2. General Obligation Bonds
3. Lease Revenue Bonds
4. Revenue Bonds
5. Certificates of Participation
6. Leasing (long-term)



The true added cost of bond financing is much less than commonly assumed because most of the state's payments to investors are made in future years using dollars that are cheaper due to inflation. The relative cost of different types and terms of debt fluctuates with the financial market. As a general rule, a 20 year general obligation bond carries an interest cost which is about two thirds of one percentage point higher than a 6 year General Obligation Bond. A twenty year lease revenue bond carries an interest cost which is about one third of one percentage point higher than a 20 year general obligation bond. Interest rates for certificates of participation are generally slightly higher than lease revenue bonds. By far the largest differential in costs occurs between leasing and the other alternatives.

*Suggested Policy  
Issues*

*General Obligation* bonding should be the preferred method for critical facilities whose costs exceed the availability of current funding. It is assumed that the need for the facility has received full analysis for justification. Short term bonds (6 to 10 years) should be used when a facility has no present funding base to service debt. Long term bonds should be used (15 to 20 years) when there is current facility occupancy costs within the agency base budget that could be used to assist the funding of debt service.

Current market conditions should also be considered when bonding is discussed. For example, if current rates are lower than what the Treasurer is earning on the state investment pool, it may be a favorable time to bond.

*Revenue Bonds* should be considered when a dedicated source of revenue is available to cover the underwriting requirements. Generally, a coverage ratio is required that is in excess of the actual debt service. Examples would include higher education facilities where the funding source for debt service is not from state funds or Alcohol Beverage Control where revenues are generated from sales. Golf courses that generate revenue from fees could also be considered.

*Lease Revenue Bonds* or *Certificates of Participation* should be used if the Legislature is otherwise willing to fund a lease for a long term facility need, and it would be wiser to use those operating funds instead for debt service on a lease revenue bond. Also, this type of funding could be considered when an agency has an outside source of revenue in addition to any existing costs in the budget base. An example would be the State Library where Federal funds are available as lease costs but federal regulation may not allow the funds to be used for debt retirement. Of course, it would be wiser still, to issue a long-term General Obligation bond instead and shift the operating funds to debt service. Caution should be exercised by the Legislature to avoid excessive lease purchase obligations since they are treated like debt once funds have been committed. If funds were not appropriated in a given year, the state would enter into a default position. Lease revenue bonds should be issued with a repayment period not to exceed 20 years.

*Leasing* provides the least expensive option for space only for short term needs. Some programs are temporary in nature or provide a function that needs to be able to change locations frequently. The Analyst recommends that DFCM continue to provide funding alternatives for the Legislature when agency high cost leases are requested. High cost leases are defined in statute as real property leases that have an initial term of ten years or more or will require lease payments of more than \$1,000,000 over the term of the lease, including any renewal options.

**4.0 Tables: Board of Bonding Commissioners - Debt Service**

	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
<b>Financing</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>	<b>Analyst</b>
General Fund	\$73,009,400	\$79,316,100	\$79,951,300	\$71,206,700	\$73,223,900
Uniform School Fund	10,212,500	6,012,000	8,426,400	20,152,500	20,152,500
Centennial Highway Fund		12,000,000	38,097,300	38,842,000	41,104,400
Dedicated Credits - GO Bonds	2,459,400	2,484,300	223,500		
Dedicated Credits - Revenue Bonds	12,310,200	13,640,800	18,078,600	23,388,600	23,565,500
Beginning Nonlapsing	40,600	436,900	380,100	1,529,200	
<b>Total</b>	<u>\$98,032,100</u>	<u>\$113,890,100</u>	<u>\$145,157,200</u>	<u>\$155,119,000</u>	<u>\$158,046,300</u>
<b>% Change</b>		16.2%	27.5%	6.9%	1.9%
<b>Programs</b>					
Debt Service	<u>\$98,032,100</u>	<u>\$113,890,100</u>	<u>\$145,157,200</u>	<u>\$155,119,000</u>	<u>\$158,046,300</u>
<b>Total</b>	<u>\$98,032,100</u>	<u>\$113,890,100</u>	<u>\$145,157,200</u>	<u>\$155,119,000</u>	<u>\$158,046,300</u>
<b>Expenditures</b>					
Current Expense	<u>\$98,032,100</u>	<u>\$113,890,100</u>	<u>\$145,157,200</u>	<u>\$155,119,000</u>	<u>\$158,046,300</u>
<b>Total</b>	<u>\$98,032,100</u>	<u>\$113,890,100</u>	<u>\$145,157,200</u>	<u>\$155,119,000</u>	<u>\$158,046,300</u>