



DEBT SERVICE

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
STAFF: BRIAN WIKLE

ISSUE BRIEF

SUMMARY

Debt service is made up of interest and principal due on the state’s bonded indebtedness. The state often uses bonds to finance large capital expenditures, including new facility construction, major remodeling, and highway projects. General Obligation (G.O.) bonds are backed by the full faith and credit of the state. Revenue bonds are secured by dedicated revenue streams such as enterprise fund revenue or lease payments. Debt service on revenue bonds and G.O. bonds is combined in this line item.

ISSUES

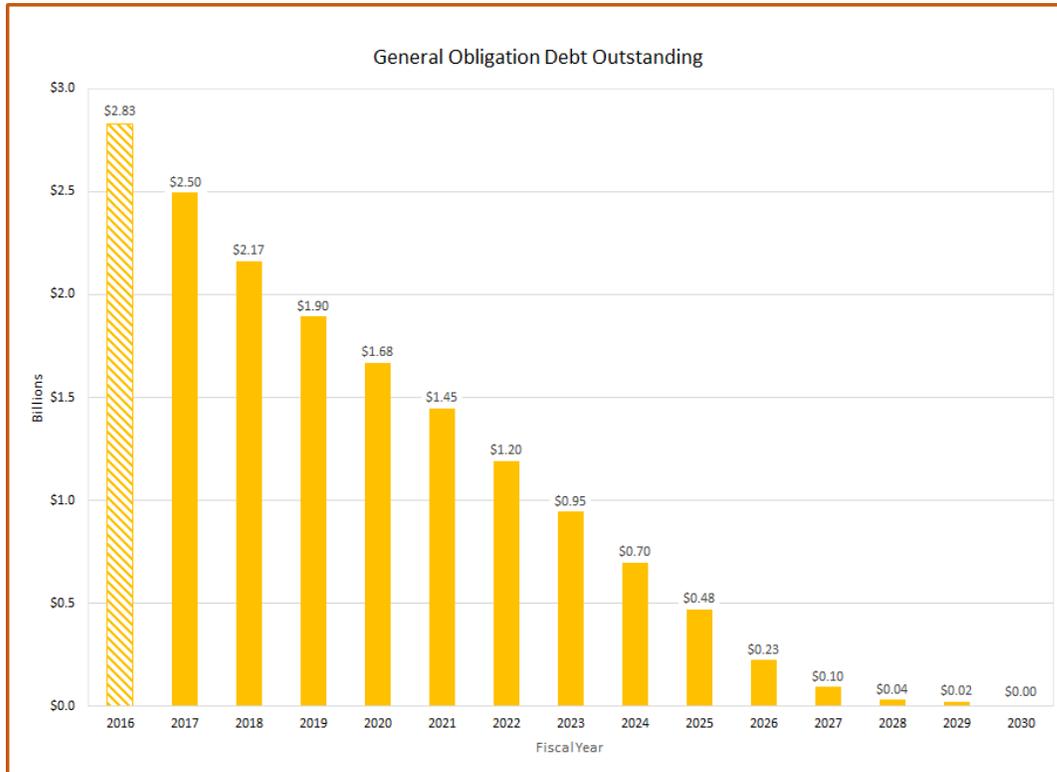
Outstanding G.O. Bonds

The table below includes current outstanding G.O. bond indebtedness broken out by buildings and highways. It does not include \$537.2 million in bonds authorized by the Legislature but not yet issued.

Outstanding G.O. Bond Indebtedness				
	<u>Series</u>	<u>Original Amount</u>	<u>Final Maturity Date</u>	<u>Outstanding as of July 2, 2015</u>
Capital Facility Projects	2010A	\$ 79,710,000	July 1, 2016	\$ 45,710,000
	2011	\$ 46,860,000	July 1, 2017	\$ 46,860,000
	2012A	\$ 33,240,000	July 1, 2017	\$ 31,195,000
Highway Projects	2004A*	\$ 314,775,000	July 1, 2016	\$ 57,405,000
	2009A	\$ 394,360,000	July 1, 2019	\$ 75,795,000
	2009C	\$ 363,630,000	July 1, 2018	\$ 207,525,000
	2009D	\$ 491,760,000	July 1, 2024	\$ 491,760,000
	2010A	\$ 333,280,000	July 1, 2017	\$ 74,330,000
	2010B	\$ 621,980,000	July 1, 2025	\$ 621,980,000
	2010C*	\$ 172,055,000	July 1, 2019	\$ 172,055,000
	2011	\$ 563,060,000	July 1, 2026	\$ 248,725,000
	2013	\$ 226,175,000	July 1, 2028	\$ 204,575,000
	2015*	\$ 220,980,000	July 1, 2026	\$ 220,980,000
				\$ 2,498,895,000

* refunding

The State made payments toward G.O. bond principal totaling \$331,255,000 on July 1, 2015. The next payments toward principal will total \$324,910,000 and will occur on July 1, 2016. The following chart shows that under the current schedule (assuming no additional bonds issued), the State will pay off its G.O. bond debt by FY 2029.



Can bonds be paid off early?

Almost every year at least one bond series is paid off as it reaches its normal maturity. Under the normal schedule, Utah will pay off two bonds (Series 2004A and the portion of Series 2010A dedicated to capital facility projects) on July 1, 2016. Any bond can be legally defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding transaction, a defeasance can also occur with cash. Doing so involves setting aside sufficient cash or U.S. Treasury 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, the interest rate in the escrow account cannot exceed the interest rate on the bonds (“arbitrage”) or the bonds can lose their federal authorization to be tax free to investors. Portions of Series 2009A and Series 2011 were defeased in March 2015 with estimated savings to the state of approximately \$10.4 million (net present value).

Build America Bonds Subsidy

Utah issued five bond series using the federal Build America Bonds (BAB) 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, rather than the traditional federally tax-exempt bond structure. Because the 35 percent direct cash subsidy was greater than the 28 percent tax exempt subsidy, BABs were used. The BAB program was originally projected to save the State approximately \$55 million (net present value) over 15 years on \$1.114 billion of G.O. bonds. Shortly after the program’s inception, bond rating agencies recommended that BABs issuers budget debt service gross of federal subsidies, acknowledging the potential for Congress to curtail future subsidies. Correspondingly, the State appropriated an additional

\$14,154,200 from the General Fund to the Debt Service budget for FY 2014 and \$14,139,000 for FY 2015. The funds will be transferred back to the General Fund upon receipt of the subsidy.

The potential for subsidies to be reduced was realized when the federal budget sequestration of 2013 reduced the FY 2014 subsidy payments by \$1,098,200 or 7.2 percent of the original subsidy, thereby increasing the amount that had to be transferred from the TIF and County funds to cover the BABs shortfall. Future changes in subsidies will be determined by Congress as it sets appropriations under federal spending caps, meaning it is unclear at the moment whether additional sequestration which could affect BABs subsidies might occur. Unless sequestration-induced subsidy reductions are curtailed or otherwise changed, the projected savings realized through the use of BABs are now projected at approximately \$44 million (net present value).

ACCOUNTABILITY

Constitutional and Statutory Bonding Capacity

The State's constitutional debt limit caps total general obligation debt at 1.5 percent of the value of the state's taxable property. The data that follow in this section are estimated as of April 29, 2015.

Fair market value of ad valorem taxable property.....	\$271,337,328,737
Fees in lieu of ad valorem taxable property.....	\$11,151,850,405
Total fair market value of taxable property	<u>\$282,489,179,142</u>
Constitutional debt limit (1.5%).....	\$4,237,337,687
Less: currently outstanding general obligation debt (net)	<u>(\$2,957,097,230)</u>
Estimated additional constitutional debt incurring capacity of the State.....	<u>\$1,280,240,457</u>

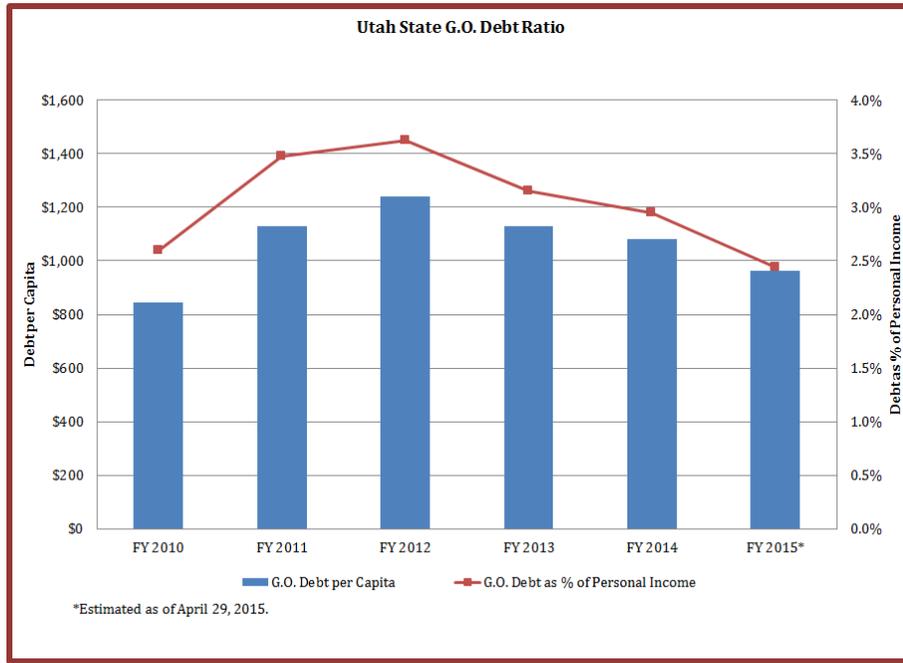
The State's statutory debt limit caps general obligation debt to 45 percent of the maximum allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation. The State Appropriations and Tax Limitation Act and additional general obligation debt incurring capacity of the State under that act are estimated as of April 29, 2015 as follows:

Statutory general obligation debt limit.....	\$1,503,244,552
Less: statutorily applicable general obligation debt (net).....	<u>(\$328,989,549)</u>
Remaining statutory general obligation debt incurring capacity	<u>\$1,174,255,003</u>

Credit Rating and Debt Ratio

The three primary nationally recognized bond rating agencies, Moody's, Standard and Poor's, and Fitch, rate the general obligation debt of all states. As of July 2, 2015, ten states merit the highest "Triple A" rating from all three agencies: Alaska, Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Texas, Utah, and Virginia.

Rating agencies, as well as investors, look at a state's outstanding debt relative to population and personal income. These indicators give insight into a state's indebtedness and the debt burden placed on taxpayers. Per capita debt is calculated by dividing the total outstanding debt by the current population estimate. Debt as a percent of personal income is calculated by dividing current outstanding debt by the state's total personal income. The following chart shows a history of Utah's G.O. debt ratios.



As of April 29, 2015, the State’s G.O. debt per capita is an estimated \$962 while Utah’s debt as a percentage of personal income is 2.44%. 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.

BUDGET DETAIL

The following table shows sources of finance for debt service for FY 2014 actual, FY 2015 estimated, and FY 2016 appropriated. (Note: figures are rounded to the nearest hundred.)

<u>Source of Finance</u>	<u>2014 Actual</u>	<u>2015 Estimated</u>	<u>2016 Appropriated</u>
General Fund	54,376,700	54,250,100	54,312,800
Gen. Fund, One-time	14,111,600	14,154,200	14,139,000
Education Fund	17,164,300	17,202,000	17,221,800
Edu. Fund, One-time	64,300	-	-
TIF of 2005	343,656,600	326,452,000	348,420,200
Federal Funds	14,154,200	14,156,000	14,139,000
County of 1st Class	24,639,000	16,498,600	6,383,600
Transfers	(14,154,200)	(14,154,200)	(14,139,000)
Beginning Nonlapsing	6,683,900	7,293,100	7,268,400
Closing Nonlapsing	(7,293,100)	(7,268,400)	(7,277,900)
Total	453,403,300	428,583,400	440,467,900