LFA LEGISLATIVE FISCAL ANALYST

# DEBT SERVICE

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
STAFF: RICHARD AMON

BUDGET BRIEF

## SUMMARY

Debt Service is made up of interest and principal due on the state's bonded indebtedness. The state uses bonds to finance some large capital expenditures including new facility 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 is combined in this line item.

## ISSUES AND RECOMMENDATIONS

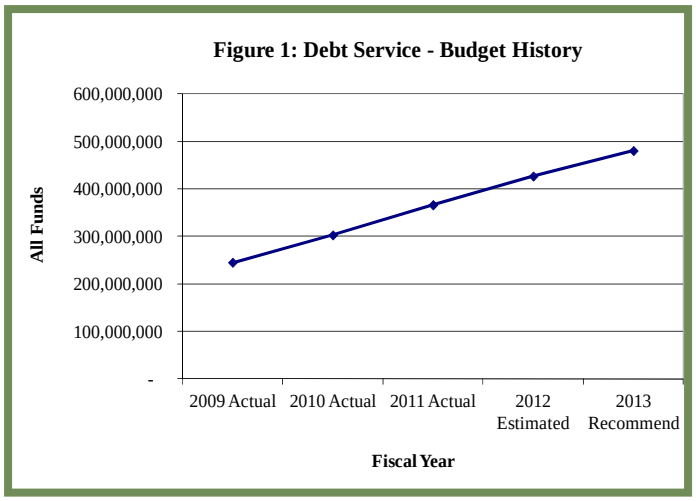
### *Outstanding General Obligation (G.O.) Bonds*

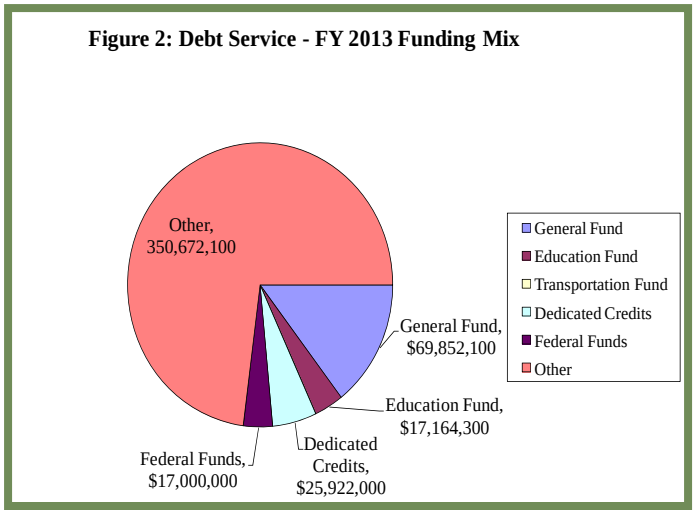
**Outstanding GO Bond Indebtedness**

| Series | Purpose | Original Amount | Final Maturity Date | Outstanding as of Jan. 1, 2012 |
|---|---|---|---|---|
| 2002B | Refunding | $253,100,000 | July 1, 2012 | $59,915,000 |
| 2003A | Hwys/Bldgs | $407,405,000 | July 1, 2013 | $107,875,000 |
| 2004A | Refunding | $314,775,000 | July 1, 2016 | $234,635,000 |
| 2004B | Hwys/Bldgs | $140,635,000 | July 1, 2015 | $15,400,000 |
| 2007A | Hwys/Bldgs | $75,000,000 | July 1, 2014 | $32,235,000 |
| 2009A | Highways | $394,360,000 | July 1, 2019 | $197,365,000 |
| 2009B | Buildings | $104,450,000 | July 1, 2015 | $84,825,000 |
| 2009C | Hwys/Bldgs | $490,410,000 | July 1, 2018 | $486,325,000 |
| 2009D | Highways | $491,760,000 | July 1, 2024 | $491,760,000 |
| 2010A | Hwys/Bldgs | $412,990,000 | July 1, 2017 | $373,390,000 |
| 2010B | Highways | $621,980,000 | July 1, 2025 | $621,980,000 |
| 2010C | Refunding | $172,055,000 | July 1, 2019 | $172,055,000 |
| 2011A | Hwys/Bldgs | $609,920,000 | July 1, 2026 | $609,920,000 |
| | | | | **$3,487,680,000** |

**Table 1**

This schedule does not include bonds authorized by the Legislature but not yet issued.




### *Can bonds be paid off early?*

Under our current schedule, Utah will pay off one bond (series 2002B) on July 1, 2012. Any bond can be legally defeased earlier than its final maturity date. Although a defeasance is generally accomplished by a refunding transaction (which the state has already taken advantage of during times of low interest rates), a defeasance can also be accomplished with cash. Doing so would involve setting aside enough cash in an escrow account to meet all payments of principal and interest on the outstanding bonds as they become due, thereby removing the debt from the balance sheet.

### *State Debt Obligations*

While General Obligation debt ($3 billion) is the most important debt held by the state, there exist several other types of debt obligations that amount to an additional $5 billion of debt outstanding related to the state. These obligations include

public school debt, State Building Ownership Authority bonds, and higher education revenue bonds including some student loan bonds. (See *State Debt Obligations* Issue Brief for more info.)

**Principal Outstanding (billions) as of June 30, 2011**

| | Direct State Obligations | | Indirect State Obligations | |
|---|---|---|---|---|
| **Legal Obligations** | General Obligation Debt | $3.3 | Public School Debt Guaranty | $2.5 |
| **Credit Obligations** | State Building Ownership Auth. | $0.4 | Higher Education Student Loans | $1.2 |
| | | | Board of Regents Building Rev. Bonds | $0.6 |
| | **Total State Legal and Credit Obligations** | | | **$8.0** |

| | | |
|---|---|---|
| **Non-State Obligations** | Housing Authority | $1.3 |
| | Charter School Finance Authority | $0.2 |
| | Student Loans | $0.7 |
| | | **$2.2** |

**Table 2**

### *Utah's "Triple A" Rating*

The three national rating agencies (Moody's, Fitch, and Standard and Poor's) provide ratings of credit worthiness of all states. At this time only eight states merit a "Triple A" rating from all three agencies: Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Utah, and Virginia.

### *Unissued Bond Authorizations*

The state currently has one bond authorizations that could be removed from statute and one bond authorization that should be amended. The Analyst recommends the Legislature consider making these changes in the next bond bill. (See *Unissued Bond Authorizations* Issue Brief for more information.)

### *Non-lapsing Balance*

The Debt Service line item finished FY 2011 with a $12.2 million non-lapsing balance. Of that amount, $10.8 million is committed to pay future lease revenue bonds (most of it capitalized interest for the U of U Huntsman Hospital) and $1 million is budgeted for FY 2012 debt service. The Legislature decreased the nonlapsing balance by $12 million in FY 2009 and replaced $7 million of ongoing General Fund with one time nonlapsing balances.

| Non-lapsing Balance | |
|---|---|
| FY 2008 | 26,569,300 |
| FY 2009 | 10,980,300 |
| FY 2010 | 20,391,600 |
| FY 2011 | 12,197,400 |
| FY 2012 Est. | 8,340,500 |
| FY 2013 Est. | 10,849,400 |

### *Build America Bonds Subsidy*

The state issued five bond series using the federal Build America Bonds (BAB) program which provides an IRS refund subsidy in return for selling taxable bonds at higher interest rates. The BAB program saved the State $55 million over 15 years on $2,017 million of general obligation bonds. Recently, bond rating agencies provided direction to issuers using the BAB program to budget debt service gross of federal subsidies. This direction indicates a certain level of risk with the BAB program. In order to comply, the State will need to appropriate an additional $15,252,400 from the General Fund to debt service. The funds will be transferred back to the General Fund upon receipt of the refund.

## ACCOUNTABILITY DETAIL

### *Constitutional and Statutory Bonding Capacity*

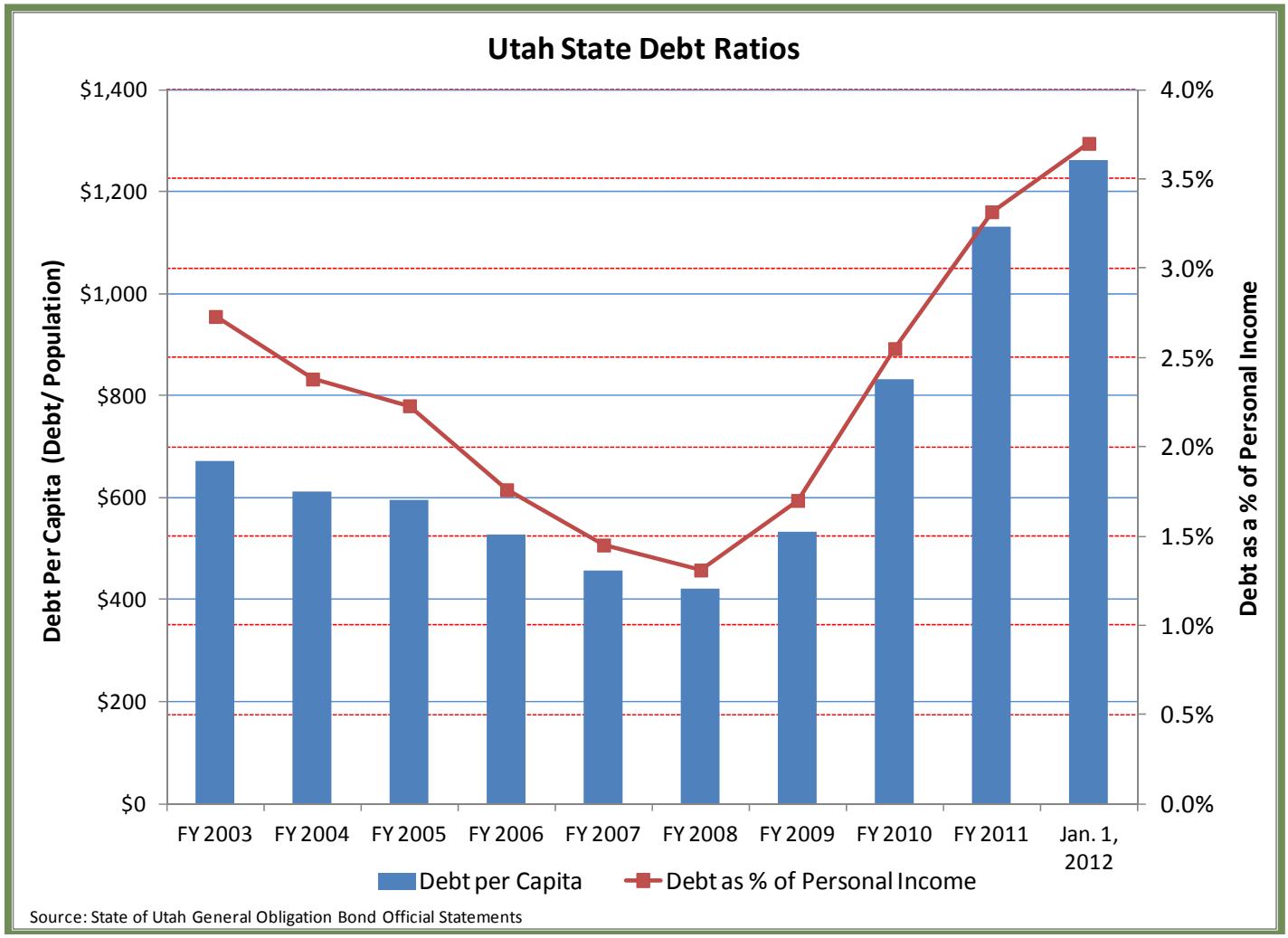
The state's constitutional debt limit caps total general obligation debt at 1.5 percent of the value of the state's taxable property. The state's statutory debt limit further caps general obligation debt to 45 percent of the allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation.

**Remaining General Obligation Debt Capacity (millions)**

| | June 30, 2008 | June 30, 2009 | June 30, 2010 | June 30, 2011 | January 1, 2012 |
|---|---|---|---|---|---|
| Constitutional | $3,034 | $3,111 | $1,962 | $957 | $528 |
| Statutory | $680 | $648 | $646 | $724 | $810 |

### *Debt Ratios*

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. 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 a state's total personal income. The chart below shows a history of Utah's debt ratios.




The current estimate of the State's general obligation per capita debt is $1,262, while Utah's debt as a percentage of personal income is currently at 3.7%. Increased bonding for highway projects including the reconstruction of I-15 in Utah County and the Critical Highway Needs program increased debt obligations in recent years. The previous peak in general obligation debt per capita and as a percent of personal income occurred in FY 2003 as a result of the I-15 reconstruction project in Salt Lake County.

## BUDGET DETAIL

The FY 2013 budget of $51,599,700 General Fund and $17,164,300 Education Fund is required to meet debt service obligations. The $15,252,400 one-time General Fund in FY 2013 is the gross debt service appropriation to meet rating agency guidelines for Build America Bond subsidies. A corresponding transfer of $15,252,400 from the Debt Service line item occurs in the Revenue – IGG – General Fund One-time line item (not shown in the chart below); resulting in a zero-sum appropriation.

The $17,000,000 increase in federal funds and $17,000,000 decrease in dedicated credits results from changes in accounting standards of where to show revenue from the Build America Bonds subsidy. The $17,000,000 is a combination of $15,252,400 from general obligation BAB subsidy and an estimated $1,747,600 from revenue bond BAB subsidy.

## LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A FY 2013 budget of $480,610,500 for the Debt Service line item including:
    a. An increase of $51,935,800 from the Transportation Investment Fund,
    b. An increase of $8,868,300 from the Critical Highway Needs Fund,
    c. An increase of $882,100 from the County of the First Class State Highway Fund;
    d. A decrease of $1,633,700 from the Centennial Highway Fund;
    e. An appropriation of $15,252,400 from the General Fund for the general obligation bonds portion of the Build America Bonds subsidy; and a corresponding transfer from debt service nonlapsing balances back to the General Fund to hold the General Fund harmless.
2. FY 2012 increases of $22,304,700 from the Transportation Investment Fund and $2,051,600 from the Critical Highway Needs fund to pay debt service requirements.

## BUDGET DETAIL TABLE

**Debt Service**

| Sources of Finance | FY 2011 Actual | FY 2012 Appropriated | Changes | FY 2012 Revised | Changes | FY 2013* Recommended |
|---|---|---|---|---|---|---|
| General Fund | 51,599,700 | 54,599,700 | 0 | 54,599,700 | 0 | 54,599,700 |
| General Fund, One-time | 13,393,800 | 15,252,400 | 0 | 15,252,400 | 0 | 15,252,400 |
| Education Fund | 17,164,300 | 17,164,300 | 0 | 17,164,300 | 0 | 17,164,300 |
| Transportation Investment Fund of | 34,318,000 | 60,126,400 | 0 | 60,126,400 | 51,935,800 | 112,062,200 |
| Centennial Highway Fund | 137,915,300 | 137,663,200 | 0 | 137,663,200 | (1,622,700) | 136,040,500 |
| Federal Funds | 15,141,300 | 0 | 0 | 0 | 17,000,000 | 17,000,000 |
| Dedicated Credits Revenue | 20,829,600 | 42,922,000 | 0 | 42,922,000 | (17,000,000) | 25,922,000 |
| Dedicated Credits - GO Bonds | 6,450,000 | 0 | 0 | 0 | 0 | 0 |
| TFR - County of First Class State Hi | 20,988,300 | 20,988,300 | 0 | 20,988,300 | 882,100 | 21,870,400 |
| Critical Highway Needs Fund | 53,802,800 | 74,339,600 | 0 | 74,339,600 | 8,868,300 | 83,207,900 |
| Transfers | (13,393,800) | 0 | 0 | 0 | 0 | 0 |
| Beginning Nonlapsing | 20,391,600 | 9,944,500 | 2,252,900 | 12,197,400 | (3,856,900) | 8,340,500 |
| Closing Nonlapsing | (12,197,400) | (7,145,000) | (1,195,500) | (8,340,500) | (2,508,900) | (10,849,400) |
| **Total** | **$366,403,500** | **$425,855,400** | **$1,057,400** | **$426,912,800** | **$53,697,700** | **$480,610,500** |
| | | | | | | |
| **Line Items** | | | | | | |
| Debt Service | 366,403,500 | 425,855,400 | 1,057,400 | 426,912,800 | 53,697,700 | 480,610,500 |
| **Total** | **$366,403,500** | **$425,855,400** | **$1,057,400** | **$426,912,800** | **$53,697,700** | **$480,610,500** |
| | | | | | | |
| **Categories of Expenditure** | | | | | | |
| Current Expense | 366,403,500 | 425,855,400 | 1,057,400 | 426,912,800 | 53,697,700 | 480,610,500 |
| **Total** | **$366,403,500** | **$425,855,400** | **$1,057,400** | **$426,912,800** | **$53,697,700** | **$480,610,500** |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.