2022 DEBT AFFORDABILITY STUDY

Keeping Utah Fiscally Strong

A report by the Utah Office of State Treasurer

UTAH STATE TREASURER
MARLO M. OAKS

Purpose

During the 2022 General Legislative Session, the legislature passed House Bill 82 – State Finance Review Commission, which established a new commission of State officials to oversee the borrowing and lending activities of the State, including State agencies and borrowing political subdivisions of the State. The bill also requires the Office of State Treasurer to publish an annual Debt Affordability Study on or before November 1 of each year.[1]

The Debt Affordability Study is intended to inform the legislature, investors, rating agencies, and Utahns on the State's outstanding tax-supported debt obligations, debt practices, and perspectives of the state treasurer on the prudent use of debt. It does not, however, constrain or compel policymakers in any way. The study does not overly focus on the legal constraints on debt. Focusing on constitutional or statutory debt limits is akin to focusing on the credit card limit in one's personal finance, which is not the best way to manage either a State or a personal budget. The study instead uses comparison data from other states, best practices of credit rating agencies, and strategic ideas to provide informed perspectives on the reasonable use of debt. The intent is to aid legislators in making critical decisions regarding the authorization of new debt and the funding of long-term liabilities. The authors hope this study will assist in maintaining Utah's legacy of conservative debt use, while also being pragmatic about the critical role of debt in the important development activities that will continue to facilitate Utah's robust and growing economy.

Scope

The Debt Affordability Study is limited to the tax-supported debt of the State and State agencies. This includes both General Obligation (GO) debt as well as lease-revenue bonds issued through the State Building Ownership Authority. The study also contemplates long-term liabilities of the State, such as pension, Other Postemployment Benefit Plan (OPEB) obligations, and annual leave. It does not contemplate debt-incurring activities of local municipalities nor any affiliated bonding political subdivisions of the State, such as Point of the Mountain State Land Authority, Inland Port Authority, Utah Lake Authority, or the Military Installation Development Authority. Note, figures are generally rounded throughout the report.

MARLO M. OAKS

UTAH STATE TREASURER

November 1, 2022

Dear Fellow Utahns:

Utah has long been recognized as a leader in outstanding public governance and strong fiscal management. Our legislators and public executives often work together, regardless of party affiliation or personal interests, to find solutions to complex problems. While we are far from perfect, Utah's history of pioneer thriftiness and can-do perseverance captured in the adage, "fix it up, wear it out, make it do or do without," symbolizes the attitude we have long held in the management of our state's resources.

Our current circumstances present many challenges in managing these resources. Utah is the second driest state and the fastest-growing state in the nation, resulting in expanding needs for water, infrastructure, housing, and education. We must be extraordinarily judicious in how we allocate our limited resources in order to best meet these growing needs.

Federal government stimulus augmented tax revenues and enabled the State to pay cash, rather than raise debt, to fund infrastructure projects. However, this stimulus has also contributed to rapid inflation last experienced 40 years ago. As near-term recession risk rises, State revenues may decrease and spending needs may increase.

Labor and bonding costs could also decrease, as they normally do during a recession. Consequently, it may soon be prudent to once again consider debt as an option to fund critical capital projects.

This Debt Affordability Study is the result of a recognition among State officials that the State's continued growth requires greater insights into outstanding borrowing among State entities. Utah as a whole has done an excellent job managing its fiscal affairs. This and subsequent studies are designed to provide a snapshot of our financial health in an easy-to-understand format for leaders and citizens alike.

This report would not be possible without our partners at the Governor's Office of Planning and Budget, the Utah Department of Finance, Utah Retirement Systems, State Auditor John Dougall, and Zions Public Finance, whose dedication, expertise, and commitment has brought this study to fruition. Finally, thank you to my staff for pulling this information and analysis together in a compressed timeframe. Together we can keep Utah fiscally strong.

Sincerely,

Marlo M. Oaks, Utah State Treasurer

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Methods of Funding

The options for funding public projects are similar to those available to any individual or family: a) pay cash out of current revenue, b) set money aside for future acquisitions, or c) borrow based on anticipated revenue. A sound, long-range revenue program seeks to develop an appropriate mix among these three methods.

Utah's historic default position is the "pay-as-you-go" method. Paying for capital improvements from current revenues encourages government to operate within its means. It minimizes premature commitments of funds and conserves credit for times of greater need.

Pay-as-you-go funding also avoids costs associated with debt issuance and, therefore, is usually less expensive than borrowing. Furthermore, pay-as-you-go reserves critical debt capacity for times of extraordinary economic challenges.

When Debt is Appropriate

While pay-as-you-go should remain Utah's primary and preferred method, there are times when debt can be useful to the State's fiscal health. Debt is like fire, electricity, or medicine. It can be a useful tool, or it can be extremely destructive.

Sometimes essential projects are simply too large to fund on a pay-as-you-go basis, either because the budget is not sufficient to cover the entire cost of the project all at once or because it is not economical or feasible to build the project piecemeal as budgeted revenues become available.

The pay-as-you-go approach may also place an undue burden on current taxpayers to completely finance projects that will benefit future taxpayers. As such, the State may choose to finance a project to achieve generational equity, allowing the cost to be spread over the life of the improvement and thus paid for by those who will benefit from the project.

In addition, undue reliance on pay-as-you-go may prevent a government from completing projects that need to be done sooner than pay-as-you-go would allow.

These projects may include the financing of essential infrastructure to keep the State competitive with neighboring states and completing infrastructure in areas of rapid population growth.

When inflation results in construction costs that are higher than the State's borrowing rate, it may make financial sense to lock in today's rates and bond for the project. This may also result in immediate economic benefits.

Figure 1. 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.

As we face heightened economic uncertainty, policymakers should be aware of the potential benefits of debt outlined in Figure 1 and be ready to respond with debt authorizations for projects that have high economic benefits. Note the four benefits illustrated in the figure normally occur during a recession. However, given current inflation levels, there is no guarantee these advantages will materialize during the next downturn, especially lower-than-normal construction and financing costs.

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

Finally, the State should consider the use of debt if the alternative would significantly deplete the State's rainy day funds. Maintaining adequate reserves is essential to the financial health of the State and the maintenance of its bond ratings.

Utah's Short Amortization of Debt

Article XIII, Section 5 of the Utah Constitution places a limit of 20 years on the amortization of State debt.[2] In addition, for General Obligation (GO) bonds, Utah Code Annotated §63B-1a-101-4 requires the State Bonding Commission to "comply with any maturity requirements established by the legislature," or "in the absences of any maturity requirements, establish, by resolution, a bond maturity date or dates that are not later than 15 years after the date of delivery of the bonds."[3] By way of comparison, other states have even issued 30-year bonds, although 20-year is more common.

Notwithstanding these limitations, Utah has a long-standing practice of using shorter-than-normal amortization periods. For example, prior to 1997, at the direction of the legislature, most of the State's GO bonds were issued using a seven-year amortization period.

The national rating agencies have cited Utah's relatively short amortization of debt as a positive credit characteristic for the State.

In preparation for the 2002 Winter Olympics, the legislature authorized bonding for a significant number of highway improvements. The state treasurer issued bonds amortizing over 15 years with a 10-year call, meaning the State could choose to retire the debt after 10 years if it was advantageous to do so. The State has opted to use this structure for highways ever since. GO bonds used to finance State buildings typically have an amortization period of no more than 10 years.

Prior to the mid-1990s, most lease-revenue bonds issued through the State Building Ownership Authority (SBOA) had seven-year amortizations. As the size and number of building projects increased, so did the amortization period. Over the last 15 years, many SBOA lease-revenue bond issues have had amortization periods equal to 20 years beyond the capitalized interest period.

The legislature established the use of short amortization periods identifying several benefits, including: a) reduced total interest costs, b) selling bonds on the short end of the yield curve typically results in lower borrowing costs, c) favorable bond rating ramifications, and d) greater fiscal discipline. The obvious downside of shorter amortizations is higher annual debt service payments.

While the State's amortization periods have increased, they are still short compared to other states' debt issues. The major national rating agencies have cited the relatively short amortization periods as a positive credit characteristic for Utah.

History of Utah's Credit Ratings

The GO bonds of the State enjoy AAA/Aaa/AAA ratings from S&P Global Ratings (formerly Standard & Poor's Corporation), Moody's Investors Service, and Fitch Ratings, respectively. These are the highest credit ratings given, indicating the strongest financial position.

The oldest of these ratings is from S&P Global and dates to June 1965. At that time, S&P Global rated the State AAA without an outlook. In June 1991, S&P Global added an outlook of "stable" to its rating.

The rating from Moody's Investors Service came next and was first published in 1973. The State has always been rated Aaa by Moody's.

Utah became the first state in the nation to receive AAA ratings from three major rating agencies when Fitch Ratings first rated the state AAA in 1992. Utah is currently one of only 13 states with triple-AAA ratings. Utah has never been rated below AAA by any credit rating agency.

Five other states have split ratings with at least one AAA rating from a major rating agency but with a lower rating from another rating agency. Only Missouri, North Carolina, Virginia, and Utah have maintained each of their AAA credit ratings since inception.

Importance of AAA Ratings

Utah's AAA ratings are a direct result of conservative fiscal policies, a diverse tax base and economy, limited use of State debt, and ample rainy day funds that are available to cover revenue shortfalls or unexpected expenses.

Utah's credit ratings reflect a stellar track record, an expectation of stability and resilience through difficult economic cycles, and a low risk of default.

The States's strong credit saves taxpayers money through lower borrowing costs.

The State currently has approximately $2.6 billion outstanding of net tax-supported debt, which includes both GO debt and revenue bonds. If the debt had been issued with ratings just one notch lower, AA+, for GO bonds and AA for lease-revenue bonds, the cost to the State would be approximately $26.5 million in additional interest costs over the life of the bonds.[4]

Our AAA ratings also reassure the public that governmental leaders are making wise financial decisions.

Factors In Utah's AAA Ratings

Rating agencies consider a broad range of factors when assessing a state's credit quality. Recent reports on rating methodologies of Moody's Investors Service, Fitch Ratings, and S&P Global Ratings indicate there are many commonalities in the factors used to assess a state's credit.

Rating agencies weigh certain factors differently, but the key drivers of the ratings are fairly consistent.

Fitch Ratings even mentions they have "no standard weighting of factors," opting instead to take a holistic approach to risk citing

BEST PRACTICES FOR AAA RATINGS

The existence of strong financial policies and practices

The use of consensus revenue forecasts

Procedures for reviewing and amending the budget based on updated information and actual performance

The existence of long-term capital planning

Making well-grounded, accurate projections of both revenues and expenditures

Quick budget action in response to reductions in revenues

Effective adjustments to the State's pension and retirement systems to preserve their solvency

that "risk elements can shift quite rapidly over time."[5] Moody's Investors Service and S&P Global use more formulaic approaches, including both quantitative and qualitative factors.

The common factors are as follows:

Economy. Rating agencies look at a state's demographic profile (is the state's population young and growing or older and stagnating), economic diversity (more industry sector diversity is better), wealth and income indicators, GDP growth trends, employment rates, and resilience of the economy through economic recessions.

Financial/Budgetary Performance. Rating agencies look for structural balance between revenues and expenditures, ability to respond to a recession, and the total amount and liquidity of fund balances, including rainy day funds.

Governance. Rating agencies look for evidence of prudent short and long-term fiscal planning, robust fiscal policies, and flexibility in revenue generation and expenditure management. Structural governmental or legal requirements for periodic reauthorization of existing revenue streams is a negative consideration.

Debt and Liability Profile. High ratings depend on conservative use of debt as assessed by the affordability ratios provided in this report, including debt service requirements, lower fixed costs as a percentage of revenues, and lower unfunded long-term liabilities, including pension and OPEB liabilities.

Factors That Could Result in a Ratings Downgrade

In its most recent rating report on the State of Utah, Moody's Investors Service listed the following two factors that could lead to a downgrade:

1) Departure from the State's tradition of conservative fiscal and debt management; or

2) Renewed financial or economic weakening that causes the State to draw down reserves to inadequate levels or incur deficits.[6]

Fitch most recently reported Utah's rating "…is sensitive to fundamental change in expectations for economic and related revenue growth and to changes in the State's approach to maintaining operational flexibility to address a cyclical downturn and rebuild resilience during periods of economic expansion."[7]

In an outlook report for state and local governments published in August 2022, S&P Global Ratings included the following projections for risks to state ratings generally:

1) Although S&P Global Economics projects a rising risk of

Table 1. Historical Ratings of Today's Highest Rated States

State	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Utah	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Virginia	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
North Carolina	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Missouri	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Delaware	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Georgia	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Maryland	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Florida	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+
Indiana	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA	AA
Iowa	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA+	AA+
Texas	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA+	AA+	AA	AA	AA	AA	AA
Tennessee	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA	AA
South Dakota	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA+	AA+	AA	AA	AA	AA	AA	NR	NR

*Data from S&P Global Ratings

recession and slowing economic growth, we don't expect there to be a direct impact to local government and state ratings in the short term. It now places the chance of recession at 40% to 50% over the next 12 months, up from 20% to 30% in the March 2022 forecast.

2) Federal stimulus dollars received by governments in 2020, 2021, and (for some) 2022 help to keep finances on track post-COVID and will also help maintain credit stability as many issuers will be able to use funds to continue undertaking projects even if budgets get tight.

3) The financial health of the state sector and strong reserve levels continue to provide a solid foundation for local governments. However, as recessionary pressures pick up through the end of 2022, stress at the state level could be felt by local governments.[8]

Use of ESG Ratings by Credit Agencies

As part of a concerning trend in the U.S., rating agencies have introduced a new scoring system into the municipal bond market called ESG (Environmental, Social, and Governance). The score evaluates businesses as well as state and local governments on subjective and often political criteria.

There is concern that ESG frameworks go beyond normal financial risk measures and assign a separate score based on factors like a state's carbon footprint or implementation of certain social agendas.

Financially-material environmental factors, such as how prepared a state is to manage drought, have always fallen within the realm of the traditional credit rating and should continue to be part of that rating, along with all other relevant financial factors. However, ESG frameworks isolate potentially relevant environmental and social factors and combine them with subjective, non-risk factors to generate a separate, politically-charged ESG score.

The 2006 United Nations' Principles for Responsible Investment (PRI) first introduced ESG as a mechanism to promote sustainable investments and encourage the inclusion of ESG criteria in the financial evaluation of companies.

In March 2022, S&P Global Ratings released ESG credit indicators on all state governments. Utah was assigned a moderately negative environmental score under S&P's new ESG scoring system, citing risks to Utah's economy from ongoing drought conditions.[9] In a similar move, Moody's assigned Utah positive social and governance scores and a neutral environmental score, resulting in an overall credit positive rating factor.[10] Fitch Ratings' ESG score for Utah is neutral to the State's credit rating.[11]

While the results of these initial ratings are not overly concerning, the creation of the framework certainly is. For instance, S&P includes ambiguous and open-ended categories in the new ESG scoring system, such as how a state scores on "managing carbon," "political unrest stemming from community and social issues," and "adverse publicity that results in reputation risk."[12] Each of these factors is potentially highly subjective, may not provide any insights on a state's ability to repay its debt, and requires a political viewpoint in order to assess.

In an effort coordinated by Treasurer Oaks and Attorney General Sean Reyes, Utah's entire Congressional delegation, all statewide Constitutional executive officers, and State legislative leaders sent a letter to S&P in April demanding the agency withdraw its ESG credit indicators for states and state subdivisions.[13] S&P provided a subsequent response indicating it intends to continue publishing the score.[14]

ESG's greatest risk to states is the imposition of outside influences on political decisions. Should ESG gain wider acceptance, a state may experience an increase in borrowing costs, regardless of its ability to repay debt, unless the state complies with the political mandates of the ESG scoring criteria. By its nature, ESG removes certain political questions from our democratically-elected institutions and places them in the capital markets. This fundamentally alters our American systems of self-governance and capital markets.

Public-Private Partnerships

The use of the term P3 (short for public-private partnership) is nebulous. The lack of a shared definition of what a P3 is makes it difficult to evaluate whether

these financial agreements have been successful. Some interpretations refer to any cooperative effort between the private and public sector as a P3. That definition is too broad.

Historically, P3 agreements were focused on economic development projects proposed by developers seeking financial assistance from a governmental entity that stands to benefit from the project. However, these agreements have now evolved to include a wide range of potential uses.

A P3 now typically involves a private entity designing, building, financing, operating, and maintaining a project in return for a promised stream of payments—directly or indirectly from government or users—over the projected life of the project or some other specified period of time. A P3 may transfer some or all the risks associated with these activities from a government entity to a group of private partners, referred to as the concessionaire.

There are two primary forms of payment mechanisms: availability-based and revenue-based. The choice of payment method is a form of risk transfer because the payment mechanism allocates demand risk to a specified entity. Demand risk is the risk that the infrastructure asset does not generate enough user fees to pay for its design, construction, and maintenance.

An availability-based payment mechanism means that the government entity will make payments to a concessionaire for making the infrastructure asset available for use, regardless of whether the infrastructure asset is actually used by the government entity. In order to receive payment, the concessionaire must ensure that the asset meets certain performance standards and is "available" for use by the public. With an availability payment mechanism, the government entity retains the demand risk for the project.

A revenue-based payment mechanism is when the demand risk resides with the concessionaire and the concessionaire is expected to recoup its development, financing, construction and maintenance costs from the user fees that are charged to the public for use of the asset.

By collecting revenues directly from those that use the infrastructure, the concessionaire can repay the lenders, pay to operate and maintain the asset and deliver a profit to its investors.

P3 providers acknowledge that the public sector can usually finance a project cheaper than can the private sector. (The private sector cannot borrow at tax-exempt rates and the private sector usually adds a profit margin to the rate.) However, P3 providers claim for the right project they may be able to design, construct, operate, and maintain the project cheaper than can the governmental entity and that those savings can more than offset their higher financing costs.

P3 agreements are often complex arrangements and contain varying degrees of risk to the governmental entity. They can leave the entity exposed to fiscal and political fallout if proper due diligence does not occur, the private partner fails to perform, or if expected project outcomes do not happen. Careful planning

GFOA P3 ADVISORY

Recognizing that some P3 projects pose a significant risk to public-sector entities, the Governmental Officers Finance Association published an advisory in January 2015 urging governments to exercise caution when considering a P3 arrangement.

Considerations:

1. Legal authority of P3
2. Justification for the project
3. Competition
4. Expected project revenue
5. Independent analysis
6. Method for performance monitoring
7. Flexibility during P3 term
8. Project risks
9. Transaction costs
10. Bond rating impact
11. Public participation and disclosure
12. Availability of assistance

The advisory can be found at: gfoa.org/materials/public-private-partnerships-p3

and analysis is necessary before commencing a P3 project.

The GFOA published and continues to update its 2015 P3 advisory.[15] This resource provides specific considerations and procedures the association deems necessary to minimize a government's exposure to potential risks associated with P3s.

Other organizations like the U.S. Department of Transportation's Federal Highway Administration have also published guidebooks for assessing risks in P3s. Overall, the movement towards P3s is slower in the U.S. than in many other parts of the world, partly due to less expensive debt, a mixed track record of success, and the lack of a generally accepted legal structure.

Public decision-makers and private partners pursuing P3 projects are gaining more experience in drafting concession agreements, particularly in negotiating terms that transfer risk to the party best able to manage such risk.

In Utah, ample debt capacity, low relative borrowing rates, and generally well-managed agencies make P3s less attractive than in other states. However, individual circumstances need to be evaluated on a case-by-case basis to determine the value of a P3.

Market Timing

The timing of debt issuance can significantly impact the total cost of debt. Interest rates on municipal debt vary according to the economic cycle, inflation expectations, policies of the Federal Reserve Bank, and market expectations for risk and return on municipal securities relative to comparable investments.

A financial advisor may advocate for the acceleration of debt issuance based on expectations of rising rates or advocate for delaying debt issuance based on expectations of falling rates.

Additionally, forward contracts are available through investment banks that allow an issuer to lock in rates in advance of a future close. However, the cost of forward contracts are normally priced such that market expectations are fully priced into the cost of the contract thereby nullifying any benefit to the contract unless rates rise faster than current expectations.

Likewise, if rates rise more slowly than the market consensus, then the cost outweighs the savings. Furthermore, accelerating funding based on expectations is typically costly, as the earnings from investments on proceeds rarely outpace the interest cost of servicing the debt. If by chance the investment earnings are greater than the debt costs, municipal issuers are required to pay this positive arbitrage back to the federal government.

Market timing often carries risks that can be managed with a well-grounded debt strategy. Generally, market timing is not recommended. One notable exception is issuing debt to fund capital projects during an economic recession.

General Obligation (GO) debt is the most commonly used form of debt for the State of Utah. However, there are other forms of debt that the State may issue, some of which impact the State's net-tax-supported debt calculation that rating agencies use in assessing the State's overall debt burden. Each of these additional forms of debt should also be considered when determining appropriate debt levels.

GO Bonds

Article XIV of the Utah Constitution sets forth the parameters for acceptable use of GO bonds. The State issues GO bonds to support large and infrequent infrastructure projects, including highway construction and acquisition and construction of major capital facilities.

GO bonds are secured by the full faith and credit of the State by pledging to levy annual taxes on real and personal property if debt service cannot be fully paid by annual State appropriations.

The last time the State issued GO bonds was in June 2020. At that time, given the uncertainty of the impact of the coronavirus pandemic on economic activity in the state and the subsequent expected impact on tax revenues, State officials decided it would be prudent to bolster the State's liquidity and balance sheet with additional funds.

The State issued $528.7 million in proceeds, the entire amount of the remaining legislated GO bond authorizations at an overall True Interest Cost (TIC) of 1.16% with an amortization period of just over 14 years and an average life of 5.8 years. This rate constituted the State's lowest-cost borrowing going back at least 20 years, as investors spooked by the pandemic sought out and paid high premiums for top-quality municipal debt like Utah GO bonds.

In contrast, another state with lesser credit quality issued bonds just five days later at an overall TIC rate of 5.82%, an almost five-fold difference in rate,[16] highlighting the value of Utah's AAA bond ratings, especially during periods of market stress.

Since 2020, State revenues, bolstered by federal stimulus programs, have been sufficiently strong to fund all infrastructure needs on a pay-as-you-go basis, allowing the State's debt burden to decline.

Currently, the State carries a total GO debt burden of $2.3 billion as of the end of FY 2022 and will make an interest payment of almost $39 million on January 1, 2023 and an 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 to add to or refund GO debt, Utah's GO debt will decline over $300 million each year for the next three years.

GO Bond Authorizations

Currently, there are $314 million of outstanding GO bond authorizations. However, except two projects totaling $20 million, the projects specified in the statutory authorizations were appropriated cash funding through legislative action in 2022 SB6. As such, without further legislative action to repurpose those authorizations, all current GO debt authorizations (except the $20 million) cannot be issued.

SBOA Lease Revenue Bonds

The legislature created the State Building Ownership Authority (SBOA) in 1979 to finance the purchase and construction of facilities leased primarily to State agencies. These bonds are secured by the facilities that the SBOA owns, and the debt service on the bonds is paid from the lease revenues appropriated by the legislature to the agencies. State statute exempts the State from explicit liability for the debt issued by the SBOA (unlike the state's GO bonds).[17]

However, any default on the bonds would have an impact on the State's credit rating. Because of the lesser credit pledge by the State relative to the State's GO bonds, lease-revenue bonds issued by the SBOA carry a credit rating of Aa1/AA+, one notch lower than the State's AAA-rated GO bonds. Also, because the lease revenues come from appropriations made from General Funds, the SBOA lease revenue bonds are included in the calculation of "net tax-supported debt" along with GO debt. Net tax-supported debt is used in the

calculation of several of the common debt burden ratios used to compare debt between states.

In FY 2022, the SBOA issued lease revenue bonds totaling $49.9 million in proceeds at an overall TIC rate of 3.34%, amortized over 20 years. The proceeds funded the construction of four Utah Department of Alcoholic Beverage Services (DABS) stores, three in Salt Lake City and one in Sandy. As of June 30, 2022, the outstanding principal and premium for all SBOA lease-revenue bonds was $288.8 million.

SBOA Bond Authorizations

There are $15.7 million in outstanding legislative authorizations for lease-revenue bonds. The outstanding authorizations are for two DABS stores, one in Summit County and one in Washington County. Funding for these two stores is expected in 2024.

However, generally issuing less than $50 million in bonds is not an efficient transaction. Without further debt authorizations for the already authorized $15.7 million, the state treasurer recommends funding the construction of these stores with General Fund appropriations.

Another option is to capitalize the State Store Land Acquisition and Building Construction Fund, which is a revolving loan fund that was established in 2022 HB191 but has not yet been capitalized with General Fund appropriations. Construction of the stores could be financed with loans from the fund. The repayment of the loans and interest would replenish the fund and allow the construction of other stores.

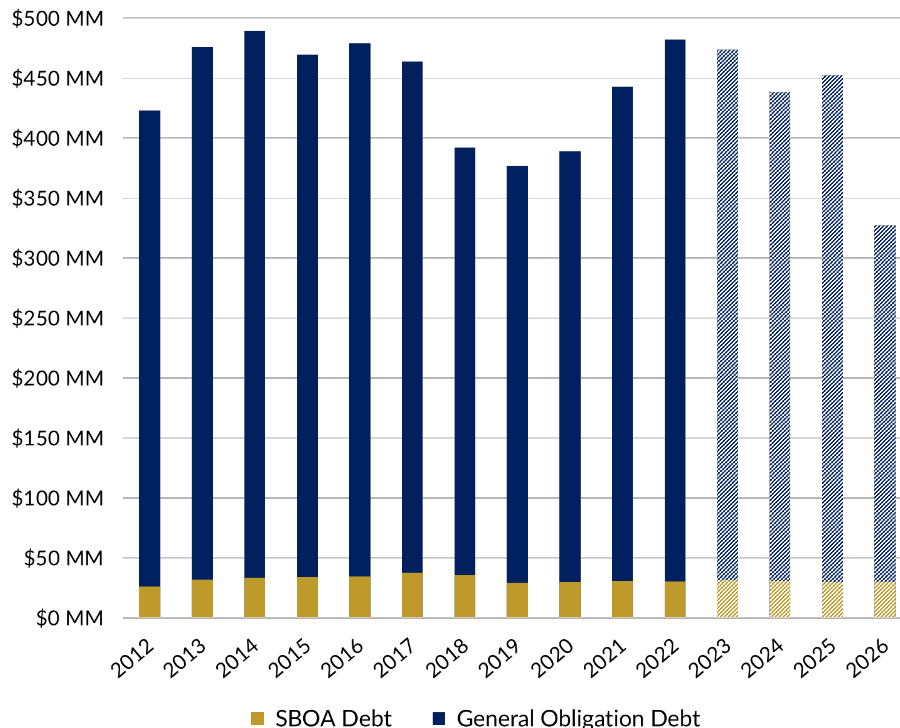
The Office of State Treasurer can establish reasonable lease schedules for the stores should this be of interest. This would provide stores funded from appropriations or the revolving loan fund a lease payment as if it had been funded through market debt issuance.

During 2018, 2019, and 2020, the State issued GO bonds each year to fund road construction and the construction of the 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. Figure 3 shows the end of fiscal year total net tax-supported debt for Utah since 2012 with projections for the next four fiscal years.

Debt Service on Net Tax-Supported Debt

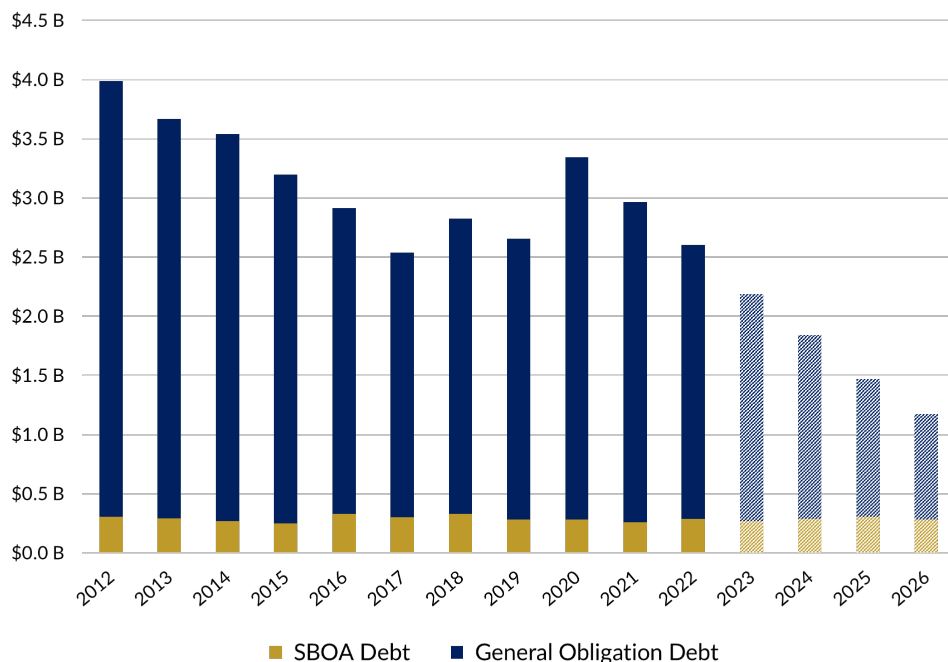
Debt service is paid on outstanding debt twice yearly. For GO debt, the payment dates are January 1 and July 1. For SBOA debt, the payment dates are May 15 and November 15. The January and November debt service payments are for interest only, and the July and May payments include both interest and principal payments.

Figure 2. Annual Debt Service on Net Tax-Supported Debt (Fiscal Year)



The last payment for GO debt service was made on July 1, 2022 and is recorded as part of FY2023 activity since that payment occurred on the first day of the new fiscal year. On July 1, 2022, the State paid $356.3 million in principal and $46.9 million in interest on the State's GO debt. The State paid $19.9 million in principal and $6.1 million in interest on May 15, 2022 for lease revenue debt.

Figure 3. Net Tax-Supported Debt Outstanding (Fiscal Year)



Total debt service on net tax-supported debt has remained between $375 million to $500 million for the past 10 years. Debt service will remain elevated through FY 2025, after which it begins to decrease rapidly.

Other State Debt Obligations

There are additional types of debt for which the State provides credit support including the School Bond Guaranty Program[18] and Charter School Credit Enhancement Program.[19] In addition, the State

Board of Higher Education issues debt for higher education and student loans, which carry a State "moral obligation" pledge similar to the debt issued by the State Building Ownership Authority.

School Bond Guaranty Program

The Utah School Bond Guaranty Act[20] became law on January 1, 1997. This Act provides the State's full faith, credit and taxing power as credit enhancement to qualified local school districts issuing bonds. This decreases borrowing costs on the bonds. Qualified bonds issued by the districts carry a AAA rating, equal to that of the State, from each of the credit rating agencies.

Primary repayment of the bonds comes from revenues of the school district. However, if a school district is unable to make a debt service payment, the State is obligated to step in.

Figure 4.

To date the State has not been required to make a debt service payment on behalf of a school district. If the State were required to step in, it could use available State funds, intercept payment to the district from the Uniform School Fund, or issue State GO bonds. Under such a scenario, the local school district would not be absolved of the debt obligation that the State paid.

By the end of FY 2022, the program had grown to over $3.58 billion in outstanding bonds.

Moral Obligation Bonds

Each year, there are other revenue bonds issued by state-related entities listed in this section, for which the State also provides a "moral obligation" pledge. These bonds carry a provision that requires a State official to certify each year to the governor (by December 1) the amounts necessary to replenish any withdrawal made from the respective debt service reserve funds.

The legislature has the discretion to replenish these funds through appropriations from the General Fund or from other funding sources as outlined in State statutes. Each moral obligation program has its own authorizing authority consisting of a board appointed by the governor. The authority for each program must authorize each bonding transaction with a moral obligation pledge of the State.

Although there is no compulsory legal requirement for the legislature to fund shortfalls in moral obligation reserve accounts, the pledge constitutes a moral obligation of the State to replenish the reserve accounts that have been used to fund debt service of a participating entity failing to pay its debt service. If the legislature chose not replenish a reserve fund that had been used, it would likely have a significant negative impact on the State's credit rating and create higher borrowing costs for other entities participating in a moral obligation program.

In Utah, these moral obligation bonds receive a rating of AA or equivalent instead of AAA by each of the credit rating agencies. This two-notch discount reflects the marginally lesser quality of a moral obligation pledge relative to more explicit guarantees like those provided in the School Bond Guaranty Program.

Charter School Credit Enhancement Program

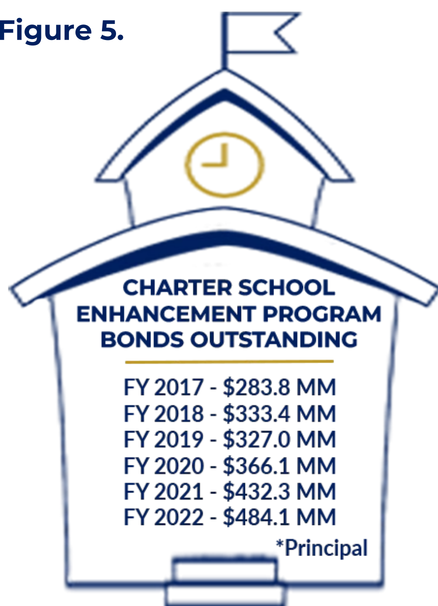
The Charter School Credit Enhancement Program was created to help reduce borrowing costs for qualifying charter schools by providing a moral obligation pledge of State backing for bonds issued through the State conduit (Utah Charter School Finance Authority) and supported by general revenues of each respective charter school.

Bonds issued under this program do not carry the explicit legal guaranty of the State like the School Bond Guaranty Program, but instead provide a moral obligation provision as described

previously. In addition, participants in the Credit Enhancement Program are required to pay contributions into a debt service reserve fund. This reserve serves as a source of funds should a school be unable to make their required debt service payment. The reserve fund currently carries a balance of $16.3 million.

If the account were depleted to make debt service payments for schools, the legislature would need to replenish the reserve account from General Fund appropriations. Under such a scenario, any offending charter school is required to repay the State the full amount of the appropriation for which they are responsible.[21] To date, no charter school has drawn on the debt service reserve fund to pay a debt service payment.

Figure 5.



The Credit Enhancement Program is administered by the Utah Charter School Finance Authority. The authority sets the standards that must be met in order to qualify to participate in the program. Twenty-nine separate bond issues have received credit enhancement under the program since its formation in 2012.

Water Recapitalization Revenue Bonds

In FY 2010, three bond series were issued by the State's Division of Water Resources to recapitalize the State's water resources revolving loan program. These bonds were fully repaid by the end of FY 2022, and there are currently no outstanding Water Recapitalization Revenue Bonds of the State.

Board of Higher Education

The Utah Board of Higher Education is an entity that may issue moral obligation bonds of the State on behalf of Utah higher education institutions to finance buildings, with loan repayment based on revenue pledged from the operation of the buildings and student fees.

As of June 30, 2022, the Board of Higher Education had approximately $1.76 billion in outstanding moral obligation bonds.[22]

Employee Pension[23]

The Utah Retirement Systems (URS) was established by Title 49 of the Utah Code. URS plans and programs are administered on an actuarially sound basis under the oversight of the Utah State Retirement Board (board). Six board members are appointed by the governor, and the state treasurer serves as an ex-officio board member. URS's audited financial statements are reported on a calendar year. The latest reporting period ended December 31, 2021.

The pension plans of the State are consistently recognized as some of the best-funded plans in the nation. In addition, URS has begun using relatively conservative return assumptions. URS reduced its assumed investment rate of return from 7.2% to 6.95% in 2017 and further reduced the investment assumption to 6.85% in 2021. The URS return assumption is below the median return assumption of 7.0%, and the average return assumption of 6.94% of the 131 public pensions tracked by NASRA as of July 2022.

Even with this more conservative return assumption, URS was able to increase the Plan's Fiduciary Net Position as a percentage of Total Pension Liability (funding ratio) 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. The Pew Charitable Trust in September 2021 released a report titled, "The State Pension Funding Gap: Plans have Stabilized in Wake of Pandemic." According to their report, URS ranked eighth among U.S. states in overall funded status.

The fund earned a 17.5% return in 2021, growing by $6.01 billion to a new all-time high of $45.1 billion. The portfolio construct is built with the intent to maximize long-term returns over market cycles, with an emphasis on downside protection.

While consideration for pension funding should always be paramount in the budgeting process, past legislative actions, including, significantly, the creation of the Tier 2 benefit plan in 2011, has resulted in curbing the increasing costs of the pension. URS receives no direct appropriation from the State General Fund, and it is not anticipated that employer contribution rates paid by the State will increase in the foreseeable future. Rather, it is expected that contributions will trend down over time as the unfunded liability is paid off.

Other Post-Employment Benefit Plans (OPEB)

The State administers two Other Post-Employment Benefit (OPEB) plans, the State Employee OPEB plan and the Elected Officials OPEB plan, with separate irrevocable trusts that provide post-employment health and insurance coverage to employees and elected officials who are eligible to receive post-employment health and life insurance coverage.

The State Employee OPEB plan was closed to new entrants beginning January 1, 2006, while the Elected Official OPEB Plan was closed and only available to elected officials who began service prior to January 1, 2012 for healthcare coverage between ages 62 and 65 and July 1, 2013 for Medicare coverage at age 65.

The State has fully funded the actuarially determined contribution (ADC) for the State Employee OPEB Plan since the creation of the trust fund in FY 2008, except for a shortfall of $680,000 or 1.27% compared to the ADC of $53.9 million in FY 2008. The ADC for the Elected Official OPEB Plan has been fully funded since the creation of the trust fund in FY 2012. The ADC as of FY 2023 for the State Employee OPEB Plan and Elected Officials OPEB Plan is $5.2 million and $423,000, respectively based upon the December 31, 2020 actuarial study for each plan.

The State Employee OPEB Plan Net OPEB asset reported in the June 30, 2022 ACFR was $30.4 million consisting of an OPEB liability of $243.9 million and a Fiduciary Net Position of $274.3 million, or 112.5% funded. The Elected Official OPEB plan Net OPEB Liability was $2 million as of June 30, 2022, with an OPEB Liability of $21.5 million and Fiduciary Net Position of $19.5 million or 90.6% funded.

Credit analysts and rating agencies look at four key ratios to measure a state's debt burden. These ratios allow for standardized comparisons between states as well as highlight noteworthy constraints to debt issuance. These ratios are:

1) Debt Per Capita (Net Tax-Supported Debt / State Population)

2) Debt as a Percent of Personal Income (Net Tax-Supported Debt / Total Personal Income of the State's Population)

3) Debt as a Percent of State Gross Domestic Product (Net Tax-Supported Debt / State Gross Domestic Product)

4) Debt Service as a percent of State Net Revenues (Annual Debt Service Requirement / Net Own-Sourced Revenues of the State)

When calculating the comparative ratios above, rating agencies use net-tax supported debt (NTSD) for the debt component of the ratio. NTSD is defined as debt secured by statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources such as utility or local government revenues. For Utah, this includes all GO bonds issued by the State, as well as all lease revenue bonds issued by the SBOA.

Other forms of State guaranteed debt and moral obligation debt, including the State's School Bond Guaranty program, Utah Charter School Credit Enhancement Program, and other programs, are not included in the calculation.

Table 2 details Utah's comparative position for the first three debt ratios relative to other states. For comparative purposes, it is most useful to compare Utah to other states with AAA ratings.

Comparative Debt Ratios

Utah ranks 21st or 22nd among all states in each of the affordability ratios in Table 2.

When compared with all states, Utah is below national averages and medians for each of these key metrics, including debt per

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%	
AAA States Mean	$1,136		1.82%		1.60%	
Georgia	$1,087	23	2.00%	24	1.70%	23
Utah	$899	22	1.60%	22	1.40%	21
Florida	$756	18	1.30%	19	1.40%	20
AAA States Median	$686		1.20%		1.10%	
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

Source: Moody's Investors Service[24]

capita, debt to personal income, and debt to state GDP.

Compared to other AAA-rated states, Utah is higher than other states' medians but below peer averages. It should be noted that the mean for the AAA-rated states is skewed significantly by Maryland and Delaware. Delaware issues all local debt at the state level and thus is not comparable to Utah. Without Maryland and Delaware, Utah would be higher than the mean.

While relatively high for a AAA-rated state, the ratios indicate for a rapidly-growing state with subsequently high infrastructure-development needs, Utah is managing overall debt levels adequately. The State's practice of issuing its debt with short amortization schedules means larger annual principal payments free up debt capacity. This allows the State to fund new projects using this annually retired debt capacity.

Because Utah generally issues debt with short amortization schedules relative to other states, Utah's debt service as a percent of state net revenues is higher than it would otherwise be.

Utah tends to have debt service ratios at close to the median level when compared with all states and significantly higher than the median when compared to other AAA-rated states. See Table 3 below.

Short debt amortization is looked upon favorably by rating agencies and credit analysts, helps keep Utah's cost of borrowing low, and maintains higher flexibility to issue future debt. However, it can also adversely affect budgets for ongoing programs supported by the State, including education funding.

Considering Utah's educational funding challenges, policymakers should carefully weigh the costs and benefits of authorizing new debt and should be especially cognizant of increases to debt service from increased borrowing.

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%	
Utah	4.55%	28	5.05%	30	4.48%	25
AAA States Mean	4.00%		3.95%		3.99%	
All States Median	4.00%		4.00%		4.50%	
Missouri	3.93%	21	3.27%	18	2.87%	17
AAA States Median	3.77%		3.38%		3.37%	
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

Source: Moody's Investors Service[25]

Debt Burden Trends in Utah and Other AAA Rated States

Figure 6, Figure 7, and Figure 8 highlight Utah's historical debt ratios relative to other AAA-rated states.

Utah tends to have debt-burden ratios higher than the median in comparison to its AAA-rated peers. These graphs show Utah's debt ratios were much higher than peers following the Great Recession when the debt portfolio was expanded.

In recent years, Utah has trended below the mean for its peers. Without high debt-level states like Delaware, Maryland, and Virginia, Utah would show less favorably relative to peer means and medians.

Figure 6. AAA-Rated States: Debt to Personal Income (Fiscal Year)

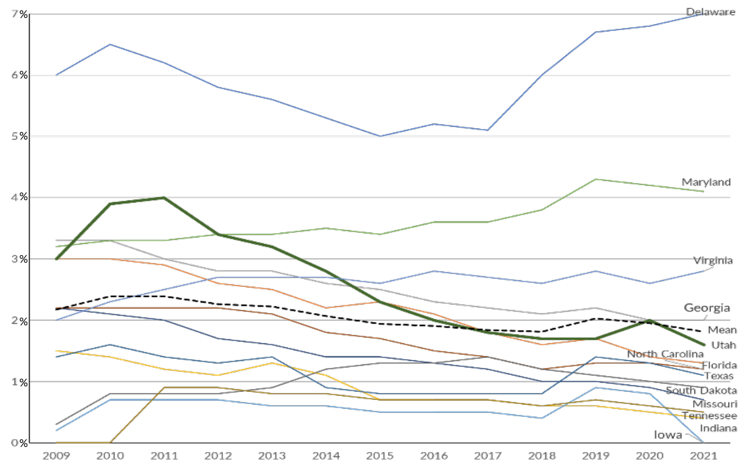


Figure 7. AAA-Rated States: Debt to GDP (Fiscal Year)

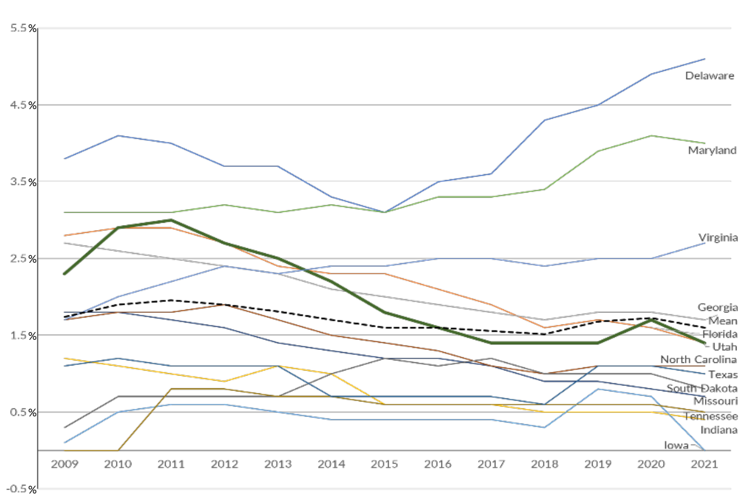
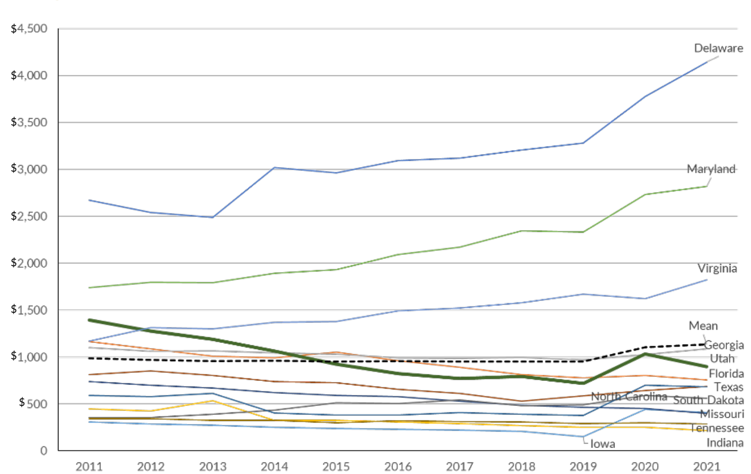


Figure 8. AAA-Rated States: Debt Per Capita (Fiscal Year)



Source for graphs: Moody's Investors Service[25]

Article XIV, Section 1 or the Utah Constitution prohibits the issuance of new debt, even debt that has been previously legislatively authorized, if it causes the aggregate debt of the State to exceed 1.5% of the value of the State's total taxable property. Final property values from assessments made in 2021 put this limitation at $8.174 billion.[26]

Final property values are not available until approximately 14 months after each fiscal year end. As a result, official constitutional debt calculations use property values that are 14 to 26 months old.

The Constitutional Debt Limit applies to all GO debt of the State and may include unpaid State employee annual leave. The 1.5% limitation does not apply to self-supporting debt or revenue bonds of the State, such as those issued by the State Building Ownership Authority, nor does it apply to moral obligation pledges or debt guarantees as long as the debt is supported by revenues other than State funds.

Likewise, the Constitutional Debt Limit does not apply to long-term liabilities of the State, including employee pension and other post-employment benefits.

Unpaid State Employee Annual Leave

In 2017, after reviewing guidance issued by the attorney general, it was determined that Unpaid State Employee Annual Leave may qualify as constitutional debt. Until this matter is more fully explored by the attorney general, the treasurer and auditor have determined to include these liabilities when calculating constitutional debt. As of the end of FY 2022, this liability totaled $125.9 million.

Historical Debt Levels and Strategic Use of Debt

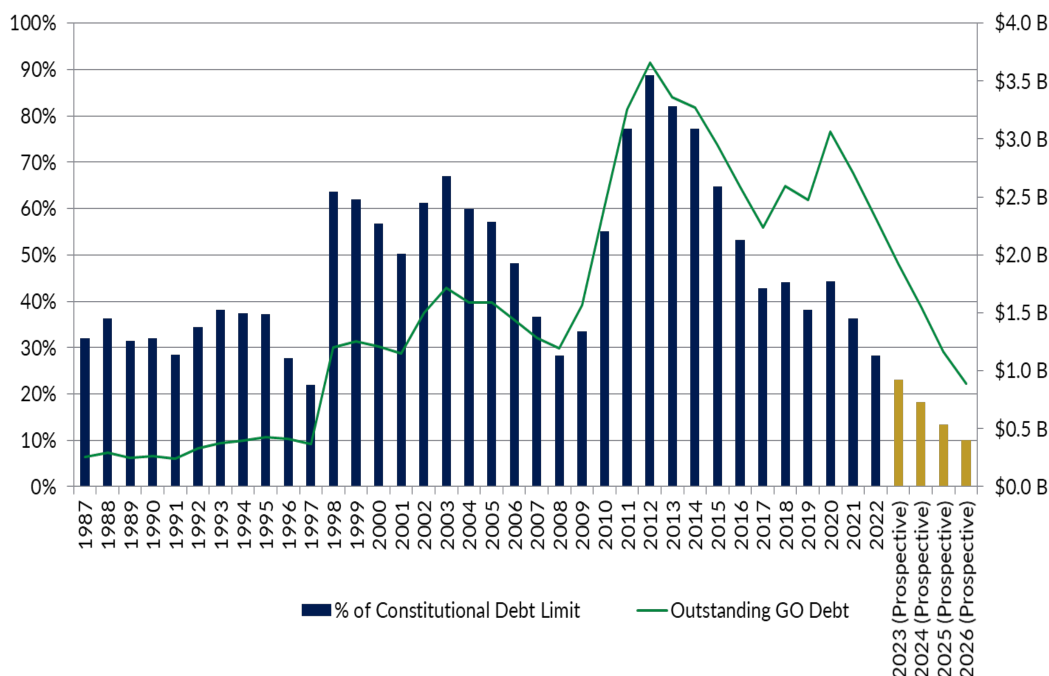
Figure 8 shows the historical and projected GO debt of the State both in total (green line) and as a percentage of the Constitutional Debt Limit (bars) for the past 40 years. The figure illustrates that, historically, Utah has allowed debt to fall to around 20% and reach as high as 87%.

In FY 2022, outstanding debt fell to 28.3% of the Constitutional Debt Limit. This conservative use of debt allows the State to borrow strategically should it have a need to do so in the coming years.

The recent decline in the percentage of constitutional debt outstanding was facilitated by robust appreciation in Utah property values as well as a pause in the issuance of new GO debt since June 2020. Utah's current GO debt position offers ample flexibility to respond to adverse economic scenarios using new debt if needed.

Allowing debt levels to decline during later years of an economic expansion leaves room for debt issuance to fund

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



more significant infrastructure spending during economic downturns. This can be an effective way to a) finance projects at low relative cost of interest, b) stabilize Utah's local economies during recessions, c) purchase labor and materials at lower prices, and d) provide budget relief during periods where revenues are decreasing.

The keys to managing debt strategically are:

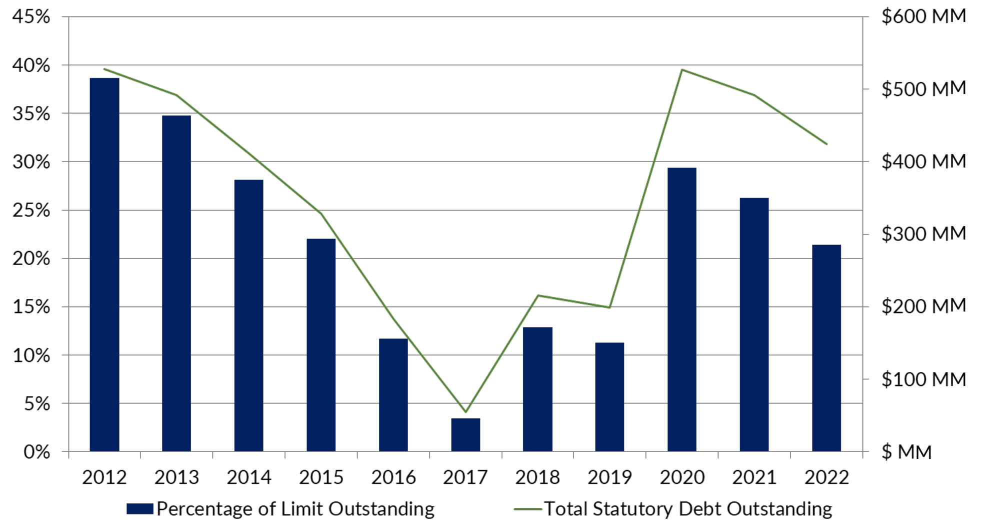
1) Rely on pay-as-you-go funding of capital projects during expansionary economic times and allow debt to retire at a significantly higher rate than the rate of replacement debt. Growing State revenues during expansionary periods should allow for continued moderate infrastructure spending from annual State budgets without over-reliance on debt. GO debt levels should decline to at most 20% to 30% of Constitutional Debt Limit by late in the expansionary phase of a business cycle.

2) During periods of economic expansion, identify and vet strategically valuable projects so that these projects can be ready to fund during more challenging economic times.

3) Use economic data to determine the timing of capital projects and associated debt issuance to coincide with periods of economic recession.

The State's revenues and fund balances are at historically high levels, and labor, material, and financing costs are very high by historical measures. If a recession materializes, it is likely these factors will change,

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



making debt financing of strategically-valuable projects a more attractive option.

It is worth noting during recessionary periods, like the Great Recession of 2008, property values were in decline, thereby lowering the Constitutional Debt Limit.

If the State expects to leverage borrowing during recessions, it must reserve ample debt capacity to issue new debt, assuming the Constitutional Debt Limit also declines during such times.

Statutory Debt Limit

Utah Code Annotated §63J-3 (State Appropriations and Tax Limitation Act) limits the maximum GO borrowing ability of the State. Under the Act, the outstanding GO debt of the State may not exceed 45% of the maximum allowable State Budget Appropriations Limit, as defined in the Act and calculated annually by the Governor's Office of Planning and Budget.

This limit at the end of FY 2022 was calculated as $1.985 billion.

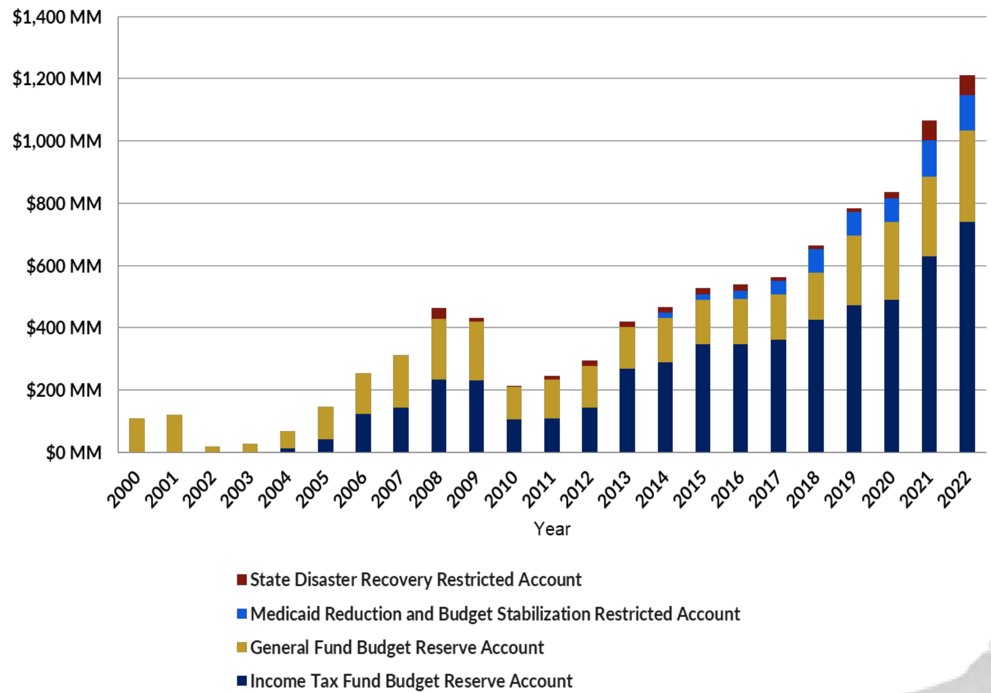
On occasion, the legislature has amended the State Appropriations and Tax Limitation Act to provide an exemption for certain GO bonds and bond anticipation notes from the limitations imposed by the Act. Of the State's currently outstanding GO bonds of approximately $2.3 billion, only approximately $0.4 million is subject to this statutory limitation.

Figure 9 shows the total historical GO debt subject to this statutory limitation for the past 10 years, as well as the percentage of the statutory debt limit outstanding.

Prior to any automatic surplus deposits at the end of FY 2022, the State had $293 million in its General Fund Budget Reserve Account, $741 million in its Income Tax Fund Budget Reserve Account, $114 million in its Medicaid Reduction and Budget Stabilization Restricted Account, and $64 million in its State Disaster Recovery Restricted Account.

The General Fund rainy day balance represents 8.4% of FY 2022 General Fund appropriations, and the Income Tax Fund rainy day balance represents 10.9% of FY 2022 Income Tax Fund appropriations. Additional deposits to the rainy day funds associated with FY 2022 year-end close-out are expected to be announced in mid-November.

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



State Revenue[27]

State budgets across the nation have booked robust revenue growth following the pandemic recession, and Utah has shared in that experience. Unprecedented federal fiscal stimulus, shifts in consumer behavior, pent-up demand for services and travel, housing value increases, tight labor markets and corresponding wage gains, and broad-based nominal price increases throughout the economy have all contributed to Utah's double-digit year-over-year General Fund and Income Tax Fund revenue growth in Fiscal Years 2021 and 2022. As seen in Table 4, in FY 2021, unrestricted sales tax collections grew 15.9% on a year-over-year basis, and in

Table 4. Major Revenue Sources and Funds in Millions, FY 2019 - FY 2023

Major Revenue Sources & Funds	FY 2019 Actual		FY 2020 Actual		FY 2021 Actual	
Source	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*
Unrestricted Sales Tax	$2,116.3	4.8%	$2,265.3	7.0%	$2,625.3	15.9%
General Fund	**$2,634.2**	**3.8%**	**$2,829.0**	**7.4%**	**$3,171.6**	**12.1%**
Sales Tax Earmarks & Set-Asides	$690.1	7.2%	$815.0	18.1%	$929.3	14.0%
Individual Income Tax	$4,320.0	8.0%	$4,720.4	9.3%	$5,375.5	13.9%
Corporate Income Tax	$520.9	16.3%	$415.9	-20.2%	$682.7	64.2%
Income Tax Fund	**$4,908.7**	**9.1%**	**$5,210.4**	**6.1%**	**$6,100.7**	**17.1%**
Total General Fund & Income Tax Fund	**$7,543.0**	**7.2%**	**$8,039.4**	**6.6%**	**$9,272.3**	**15.3%**
Motor Fuel Tax	$371.6	5.0%	$351.0	-5.5%	$379.5	8.1%
Special Fuel Tax	$142.3	5.5%	$153.4	7.8%	$172.0	12.1%
Other	$106.0	10.9%	$109.6	3.4%	$114.5	4.5%
Transportation Fund	**$619.9**	**6.1%**	**$614.0**	**-1.0%**	**$665.9**	**8.5%**

Major Revenue Sources & Funds	FY 2022 Consensus		FY 2022 Estimated		FY 2023 Consensus	
Source	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*
Unrestricted Sales Tax	$2,981.8	13.6%	$3,118.8	18.8%	$2,833.0	-9.2%
General Fund	**$3,570.7**	**12.6%**	**$3,767.3**	**18.8%**	**$3,403.2**	**-9.7%**
Sales Tax Earmarks & Set-Asides	$1,044.9	12.4%	$1,069.4	15.1%	$1,034.9	-3.2%
Individual Income Tax	$5,788.0	7.7%	$6,781.9	26.2%	$5,730.9	-15.5%
Corporate Income Tax	$718.9	5.3%	$940.6	37.8%	$529.1	-43.7%
Income Tax Fund	**$6,565.7**	**7.6%**	**$7,781.4**	**27.5%**	**$6,321.8**	**-18.8%**
Total General Fund & Income Tax Fund	**$10,136.5**	**9.3%**	**$11,548.7**	**24.6%**	**$9,725.0**	**-15.8%**
Motor Fuel Tax	$402.4	6.0%	$390.8	-2.9%	$422.3	8.1%
Special Fuel Tax	$168.1	-2.3%	$160.4	-4.6%	$178.0	11.0%
Other	$120.4	5.2%	$116.5	-3.2%	$126.9	8.9%
Transportation Fund	**$690.9**	**3.8%**	**$667.7**	**-3.4%**	**$727.2**	**8.9%**

Source: Governor's Office of Planning and Budget, FY 2022 Monthly State Revenue Snapshot: https://treasurer.utah.gov/wp-content/uploads/GOPB-LFA-Revenue-Snapshot.pdf.

FY 2022, unrestricted sales tax is expected to increase by 18.8% relative to the adopted consensus 13.6% growth rate. Meanwhile, individual income tax increased 13.9% in FY 2021 (adjusting for the delayed IRS filing deadline in calendar year 2020) and corporate income tax increased by 64.2% that year.

In FY 2022, individual income tax revenues are expected to grow 26.2%, and corporate income tax collections are expected to increase 37.8%.

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, which could be used to cash fund projects for which the State might otherwise incur debt in order to finance. The FY 2024 ongoing revenue picture, however, is considerably more unclear.

While the level of Utah's existing ongoing budget commitments provides a modest hedge against possible revenue declines in FY 2024, out-year economic uncertainty poses risk to ongoing FY 2024 collections. The State's economists will seek to quantify these risks and develop initial estimates for FY 2024 ongoing revenue collections through the consensus revenue estimation process later this year.

Federal Stimulus Programs[27]

The State of Utah has received billions in COVID-related federal stimulus dollars since the global pandemic emerged in the spring of 2020. Funding from these federal stimulus programs was distributed to a variety of entities, with consumers, businesses, and state and local governments receiving direct allocations, among other recipients. While federal response and recovery dollars are not directly available to cover the State's debt service liabilities, these funds have eased other financial pressures by funding critical response, recovery, and infrastructure projects and supported Utah's economic stability through direct funding for businesses, families, and individuals.

The main pieces of federal legislation that enacted pandemic response stimulus funding were the Coronavirus Aid, Relief, and Economic Security Act (CARES), Families First Coronavirus Response Act (FFCRA), the Consolidated Appropriations Act of 2021, and

Table 5. Estimated Federal Coronavirus Stimulus Funds to Utah

Purpose	New & Supplemental Grants	Direct Economic Relief
Advance Child Tax Credit		**$1,206,495,000**
CRF (CARES)	**$1,250,000,000**	
Department of Health Testing	**$88,585,266**	
Economic Impact Payments		**$7,963,657,000**
Economic Injury Disaster Loans		**$2,622,114,393**
Emergency Rental Assistance	**$386,028,337**	
FEMA Reimbursement	**$342,651,957**	
Food Assistance		**$161,120,583**
Higher Education	**$943,501,245**	
K-12 Education	**$1,171,670,523**	
Other Economic		**$164,757,458**
Other Local	**$146,252,780**	**$36,256,999**
Other State	**$1,552,412,884**	**$50,450,365**
Pandemic EBT Benefits		**$183,324,171**
Paycheck Protection Program		**$7,098,029,584**
Provider Relief	**$727,170,818**	
SLFRF (ARPA)	**$2,614,925,985**	
Testing	**$184,529,758**	
Transit	**$745,003,892**	
Unemployment Assistance		**$1,343,763,524**
Vaccine Administration	**$28,968,565**	
Totals	**$10,181,702,010**	**$20,829,969,077**
Grand Total	**$31,011,671,087**	

Source: Governor's Office of Planning and Budget, Downloaded from Utah Coronavirus Stimulus Summary Dashboard, 10/6/22. https://gopb.utah.gov/covid-19-materials/

the American Rescue Plan Act of 2021 (ARPA). Combined, it is estimated that Utah received more than $30 billion in federal funding through programs authorized by these bills, along with related existing programs.

As seen in Table 5 the majority of Utah's pandemic-response federal stimulus funding went directly to businesses and consumers in the form of economic impact payments ($8 billion), Paycheck Protection Program Loans ($7.1 billion) and Economic Injury Disaster Loans ($2.6 Billion).

With respect to funding flowing through State and local budgets, Utah received $1.25 billion in Coronavirus Relief Fund through the CARES Act (including $562 million made available to local governments) and over $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.

Of the $1.25 billion from the CARES Act's Coronavirus Relief Fund, $315 million went directly to Utah's two largest counties, while $935 million was directed by the State in the following manner: $198 million related to the direct COVID-19 response, $342 million related to the economic response, $247 million to other local governments, and $148 million related to the educational response.

Of the $2.5 billion of ARPA's State and Local Fiscal Recovery Fund funds allocated to Utah, $1.1 billion is allocated for local governments, while $1.4 billion is being directed by the State as follows: $430 million for water infrastructure, $235 million for responding to economic and workforce impacts, $333 million for government services, $107 million for public health, and $75 million for investments in local government projects.

Additionally, the State was allocated $138 million from ARPA's Capital Projects Fund, which the State will use for eligible capital projects enabling work, education, and health monitoring.

The Infrastructure Investment and Jobs Act (IIJA) authorized a total of $1.2 trillion in spending. Unlike ARPA and CARES Act COVID-19 relief funding, IIJA does not provide the state with highly discretionary funding managed on a statewide level. Funds will instead be distributed through new and existing grant programs which are managed at the state agency level.

IIJA funding is meant to address long-term investments in transportation, energy, water, broadband, public lands, environmental remediation, and resiliency. As a state, we value fiscal responsibility and long-term planning. IIJA funds will be carefully coordinated across state governments by the Governor's Office of Planning & Budget (GOPB), and implemented with long-lasting improvements in mind.

Currently, known estimates for Utah funding allocations total $4.18 billion in the form of formula, competitive grants, cooperative agreements, and direct subsidies. Of this total, $3.87 billion is formula funding. The majority of this IIJA funding is reauthorization and expansion of existing formula funding programs, however, $696 million is new formula funding to the state. Additionally, the state has been awarded $250 million in competitive grants.

Cooperative agreements and capped subsidies comprise the remaining approximately $57 million. Finally, the federal government has also announced approximately $650 million in direct federal spending in Utah through the U.S. Forest Service, U.S. Fish and Wildlife Service, U.S. Bureau of Reclamation, and other federal management agencies.

Expected Future Debt

The Office of State Treasurer is not aware of any current legislative plans to authorize or increase debt in the near future. Revenues in FY 2022 were very strong, and large projects like the Lake Powell Pipeline have been delayed because of drought and environmental concerns.

In addition, federal stimulus programs through the pandemic have kept State revenues high, obviating the need for debt to bolster infrastructure spending.

Conclusion

Utah has a long history of thorough and collaborative fiscal discipline and budgetary restraint. Because of the State's conservative approach to budgeting, debt management, and other financial policies, Utah is one of only a handful of states that is AAA rated by multiple rating agencies, allowing the State to finance large projects at the lowest costs in the market.

When compared with all other states, Utah is below national averages and medians for key debt metrics, including debt per capita, debt to personal income, and debt to state GDP. Compared to other AAA-states, Utah is higher than other states' medians. While relatively high for a AAA-state, the ratios can be explained by Utah's rapid growth, which results in high infrastructure development needs.

The State's practice of issuing debt with short amortization schedules frees up significant debt capacity on an annual basis. This allows the State to take on sizable projects using debt with minimal impact to debt levels. Short debt amortization is looked upon favorably by rating agencies and credit analysts, which helps to keep Utah's cost of borrowing low and maintains flexibly to issue future debt. However, it can also adversely affect budgets for ongoing programs supported by the State.

During the pandemic, the federal government provided direct stimulus to state and local governments as well as stimulus to individuals and businesses, which resulted in spending that augmented tax revenues. This enabled the State to pay cash to fund infrastructure that may have otherwise been funded with debt. However, the stimulus also contributed to the most rapid inflation our country has experienced in the last 30 to 40 years and resulted in increased infrastructure costs.

In recent years, Utah has paid down its debt, freeing up debt capacity. Should our economy move into a recession, State revenues would likely decrease and spending needs increase. Consequently, it may soon be prudent to once again consider debt as an option to fund capital needs. Utah policymakers should be aware of the potential benefits and drawbacks of debt and be ready to respond with debt authorizations for projects that have high economic benefits.

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.

The Office of State Treasurer encourages legislative and executive branch officers contemplating financing needs to reach out and discuss these with our office. We are also available to address any questions pertaining to the State's credit rating and debt management. Together we can keep Utah fiscally strong.

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Utah Office of State Treasurer

Utah Legislative Fiscal Analyst

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