2023 DEBT AFFORDABILITY STUDY

Keeping Utah Fiscally Strong

A report by the Utah Office of State Treasurer

MARLO M. OAKS
STATE TREASURER OF UTAH

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 and debt practices, as well as the perspectives of the state treasurer on the prudent use of debt. It does not, however, constrain or compel policymakers in any way.

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 Transit Authority, Utah Lake Authority, or the Military Installation Development Authority. Note, figures are generally rounded throughout the report.

MARLO M. OAKS

STATE TREASURER OF UTAH

November 1, 2023

Dear Fellow Utahns:

Utah has a well-established reputation for its strong public governance and prudent fiscal management. While the State has demonstrated commendable fiscal management, the Debt Affordability Study aims to offer a straightforward overview of our financial well-being that is readily accessible to both State leaders and the general public. Here are a few highlights from this year's study:

- Utah's debt stands at 18.9% of the Constitutional Debt Limit, at least a 35-year low in the relative debt levels of the State as determined by a percentage of allowable debt under the Constitution.

- There are currently $314 million of outstanding, statutory General Obligation (GO) bond authorizations. However, the projects specified in the statutory authorizations were appropriated cash funding through legislative action in 2022 SB6, except for two projects totaling $20 million. Consequently, current authorizations for GO debt, with this small exception, are not issuable without further legislative action.

- The State Building Ownership Authority (SBOA) has $15.7 million in outstanding legislative authorizations for lease-revenue bonds. These authorizations are for two new Department of Alcoholic Beverage Services (DABS) stores: one in Summit County and one in Washington County. Funding for these two stores is expected in 2024. However, issuing less than $50 million in bonds generally constitutes an inefficient transaction. Consequently, we recommend funding these stores with General Fund appropriation.

Should the need arise, the State is presently well-positioned to borrow. However, the following factors highlight why now may not be the most advantageous time to do so: 1) borrowing rates are at the highest levels since 2007, 2) State revenues remain robust, and 3) labor markets are still relatively tight. The Office of State Treasurer is not aware of any current legislative plans to authorize or increase debt in the near future.

As we release our second-ever report, I would like to acknowledge our partners at the Governor's Office of Planning and Budget, the Utah Division of Finance, Utah Retirement Systems, State Auditor John Dougall, and Zions Public Finance, whose dedication, expertise, and commitment has brought this and last year's study to fruition. This effort illustrates the collaborative approach to governance that has allowed Utah to thrive and will enable us to continue to build upon our legacy of fiscal strength.

I encourage legislative and executive branch officers contemplating financing needs to reach out and discuss these with my office. We are also available to address any questions pertaining to the State's credit rating and debt management.

Sincerely,

Marlo M. Oaks, CFA, CAIA
State Treasurer of Utah

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History of Utah's Credit Ratings

The General Obligation (GO) bonds of the State enjoy AAA/Aaa/AAA ratings from S&P Global (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 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.

Table 1 shows S&P Global's ratings history of each state with AAA ratings.

Importance of AAA Ratings

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

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

Utah's credit ratings reflect a track record of strong and proactive fiscal management that engages in a series of best practices.

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

BEST PRACTICES FOR AAA RATINGS

- Strong financial policies and practices
- Consensus revenue forecasts
- Procedures for reviewing and amending the budget based on updated information and actual performance
- 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

The State currently has outstanding approximately $2.2 billion of net tax-supported debt, which includes both GO debt and revenue bonds. If 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, according to recent calculations by the State's municipal advisor, Zions Public Finance.

Utah's 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, including:

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. This includes debt service requirements, lower fixed costs as a percentage of revenues, and lower unfunded long-term liabilities, including pension and OPEB liabilities.

Generally, transactional market timing of interest rates is not recommended.

GO debt is the largest and most commonly used form of debt in Utah. However, there are other forms of debt the State may incur, including lease revenue bonds, which also impact the State's net-tax-supported debt calculation that rating agencies use in assessing the State's overall debt burden.

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 the 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.

Currently the State carries a total GO debt burden of $1.9 billion as of the end of FY 2023. The State will make an interest payment of almost $32 million on January 1, 2024 and an interest payment of almost $32 million on July 1, 2024, along with a principal reduction payment of $336.8 million. Utah's GO debt continues to amortize down with principal reduction payments dropping to $255.3 million in 2025, and $185.8 million in 2026.

GO Bond Authorizations

There are currently $314 million of outstanding, statutory GO bond authorizations. However, the projects specified in the statutory authorizations were appropriated cash funding through legislative action in 2022 SB6, except for two projects totaling $20 million. Consequently, current authorizations for GO debt, with this small exception, are unable to be issued without further legislative action to repurpose those authorizations.

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).[2]

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. The SBOA did not issue any new bonds in FY2023. As of June 30, 2023 the outstanding principal and interest for all SBOA lease-revenue bonds was $266.7 million.

SBOA Bond Authorizations

There are approximately $15.7 million in outstanding legislative authorizations for lease-revenue bonds issued by the SBOA. The outstanding authorizations are for two new DABS stores: one in Summit County and one in Washington County. It is expected that funding for these two stores will be needed in 2024.

However, issuing bonds of less than $50 million would constitute an inefficient transaction. Therefore, in the absence of the authorization of additional SBOA debt that could be added to this transaction, **the treasurer recommends funding these stores with General Fund appropriation.**

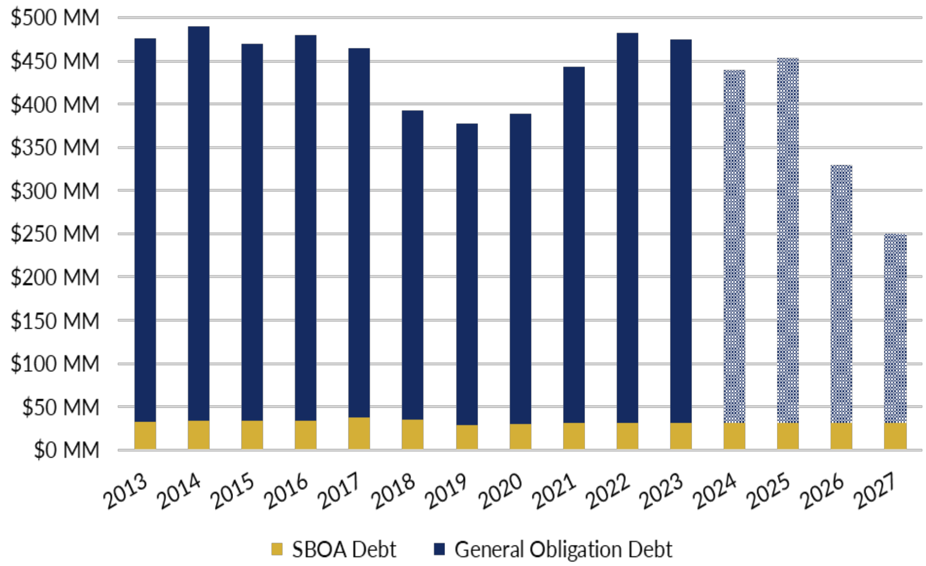
During 2018, 2019, and 2020, the State issued GO bonds each year to fund road construction and the construction of the new State prison facility. These additional bond issues kept total debt outstanding between $2.5 billion and $3.5 billion each year since 2015. No new GO debt has been issued since June 2020, allowing State debt to fall below $1.8 billion in FY 2024.

Figure 1 shows the end of fiscal year total net tax-supported debt for Utah since 2013 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, 2023 and is recorded as part of FY 2024 activity since that payment occurred on the first day of the new fiscal year. On July 1, 2023, the State paid $336.8 million in principal and $39.0 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, 2023 for lease revenue debt.

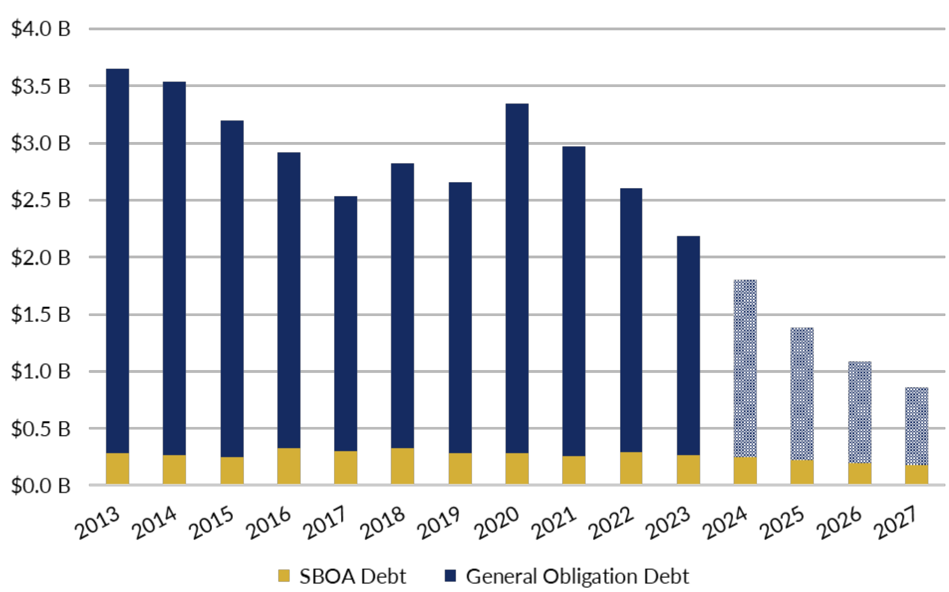
Total debt service on net tax-supported debt has remained between $375 million to $500 million for the past 10 years.

Other State Debt Obligations

There are additional types of debt for which the State provides credit support including the School Bond Guaranty Program[3] and Charter School Credit Enhancement Program.[4]

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.

Figure 1. Net Tax-Supported Debt Outstanding (Fiscal Year)



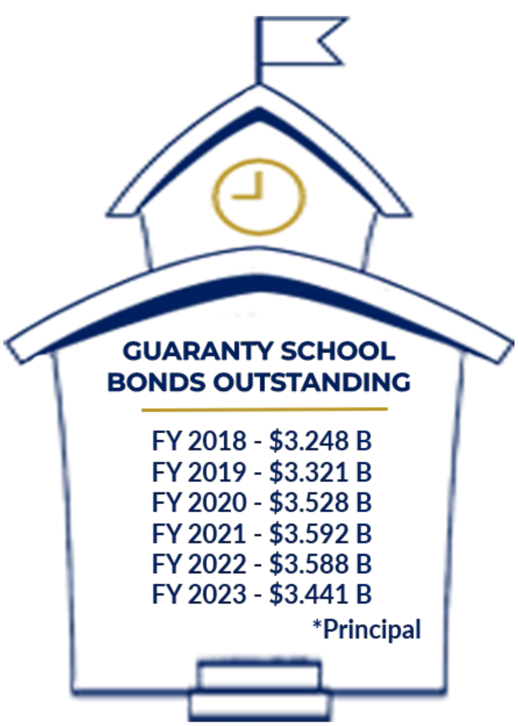
School Bond Guaranty Program

The Utah School Bond Guaranty Act[5] 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.

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.

Figure 3.



By the end of FY 2023, the program had grown to over $3.4 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.

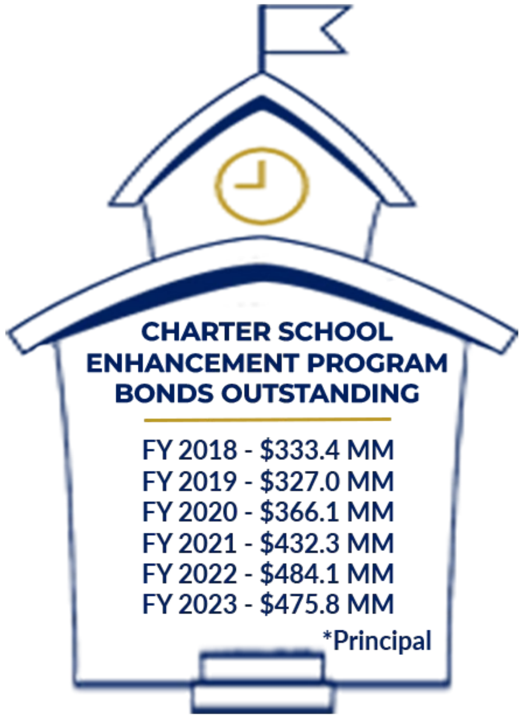
Bonds issued under this program do not carry the explicit legal guaranty of the State like the School Bond Guaranty Program, but instead provide a moral obligation provision as described previously. In addition, participants in the Credit Enhancement Program are required to pay contributions into a debt 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 $18.2 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.[6] To date, no charter school has drawn on the debt service reserve fund to pay a debt service payment.

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. Thirty-two separate bond issues have received credit enhancement under the program since its formation in 2012.

Figure 4.



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, 2023, the Board of Higher Education had approximately $2.6 billion in outstanding moral obligation bonds.[7]

Employee Pension[8]

The Utah Retirement Systems (URS) was established by Title 49 of the Utah Code. URS plans and programs are administered on an actuarial 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, 2022.

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 7.0% in 2017 and further reduced the investment assumption to 6.9% in 2021. The URS return assumption is below the median return assumption of 7.0%, and the average return assumption of 6.9% of the 131 public pensions tracked by the National Association of State Retirement Administrators as of August 2023.

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 -9.9% return in 2022. 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 General Fund, and it is not anticipated that employer contribution rates paid by the State will increase in the foreseeable future.

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 1.3% 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 2025 for the State Employee OPEB Plan and Elected Officials OPEB Plan is $12 million and $450,000, respectively based upon the December 31, 2022 actuarial study for each plan.

The State Employee OPEB Plan Net OPEB asset reported on June 30, 2023 was $18.6 million consisting of an OPEB liability of $236.9 million and a Fiduciary Net Position of $255.5 million, or 108% funded. The Elected Official OPEB plan Net OPEB Liability was $1.6 million as of June 30, 2023, with an OPEB Liability of $23.2 million and Fiduciary Net Position of $21.6 million or 93% 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)[9]

2) **Debt as a Percent of Personal Income** (Net Tax-Supported Debt / Total Personal Income of the State's Population)[10]

3) **Debt as a Percent of State Gross Domestic Product** (Net Tax-Supported Debt / State Gross Domestic Product)[11]

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 and Figures 5, 6, and 7 detail 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 19th or 20th 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 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.

Table 2. 2022 Comparison of Debt Ratios for AAA States (2021 in Parentheses)

State	Net Tax-Supported Debt Per Capita	Ranking (All 50 States)	Net-Tax Supported Debt as a % of 2022 Personal Income	Ranking (All 50 States)	Net Tax-Supported Debt as a % of 2022 State GDP	Ranking (All 50 States)
Delaware	$4,266	46	6.90%	47	5.00%	46
Maryland	$3,147	43	4.40%	41	4.10%	42
Virginia	$2,047	37	3.00%	33	2.70%	33
All States Mean	$1,808		2.74%		2.43%	
AAA States Mean	$1,189		1.87%		1.56%	
All States Median	$1,179 ($1,136)		2.15%		2.00%	
Georgia	$1,144	23	2.00%	25	1.70%	23
Utah	**$827 ($899)**	**20 (22)**	**1.40%**	**20 (22)**	**1.10%**	**19 (21)**
North Carolina	$700	17	1.20%	19	1.00%	15
Texas	$680	16	1.10%	15	0.90%	14
AAA States Median	$680 ($686)		1.10%		1.00%	
Florida	$661	15	1.00%	13	1.10%	19
South Dakota	$557	12	0.80%	10	0.70%	9
Iowa	$392	9	0.70%	7	0.50%	4
Missouri	$378	8	0.70%	7	0.60%	8
Indiana	$366	7	0.60%	5	0.50%	4
Tennessee	$294	4	0.50%	3	0.40%	3

Source: Moody's Investors Service[9]

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 (generally not longer than 15 years) has two key benefits: 1) it frees up significant debt capacity on an annual basis, and 2) it allows the State to take on additional sizable projects using debt without layering on to large absolute debt levels.

Debt Service Ratio

Because Utah generally issues debt with short amortization schedules relative to other states, its debt service as a percent of state net revenues is the debt burden ratio where Utah shows least favorable. Utah tends to have debt service ratios at close to the median level compared to all states and significantly higher that the median compared to its AAA peers. Short debt amortization is looked upon favorably by rating agencies and credit analysts, helps keep Utah's cost of borrowing relatively low, and maintains higher flexibly to issue future debt. However, it can also adversely impact budgets for ongoing State programs.

Figure 5. AAA-Rated States: Debt per Capita (Fiscal Year)

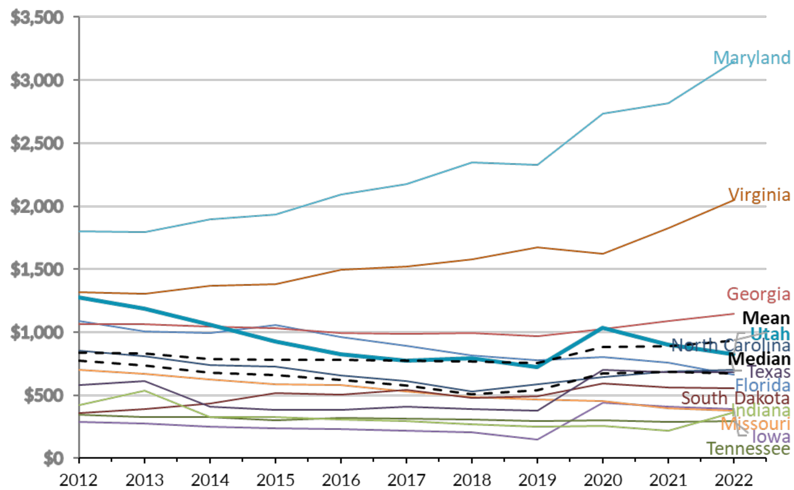


Figure 6. AAA-Rated States: Debt to Personal Income (Fiscal Year)

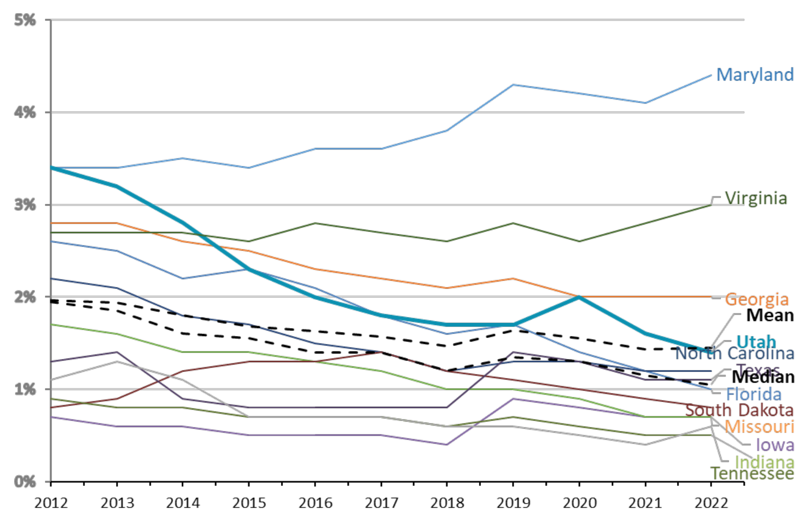
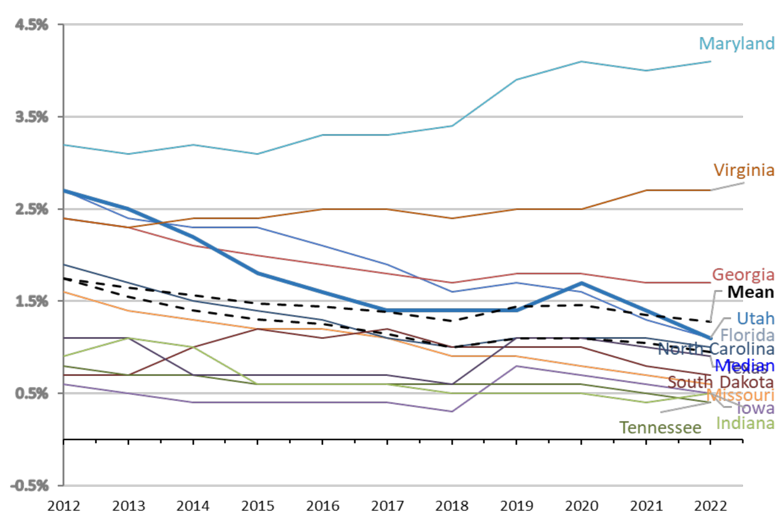


Figure 7. AAA-Rated States: Debt to GDP (Fiscal Year)



Source: Moody's Investors Service[12]

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 2022 put this limitation at $10.9 billion.[13]

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 2023, this liability totaled $142.3 million.

Historical Debt Levels and Strategic Use of Debt

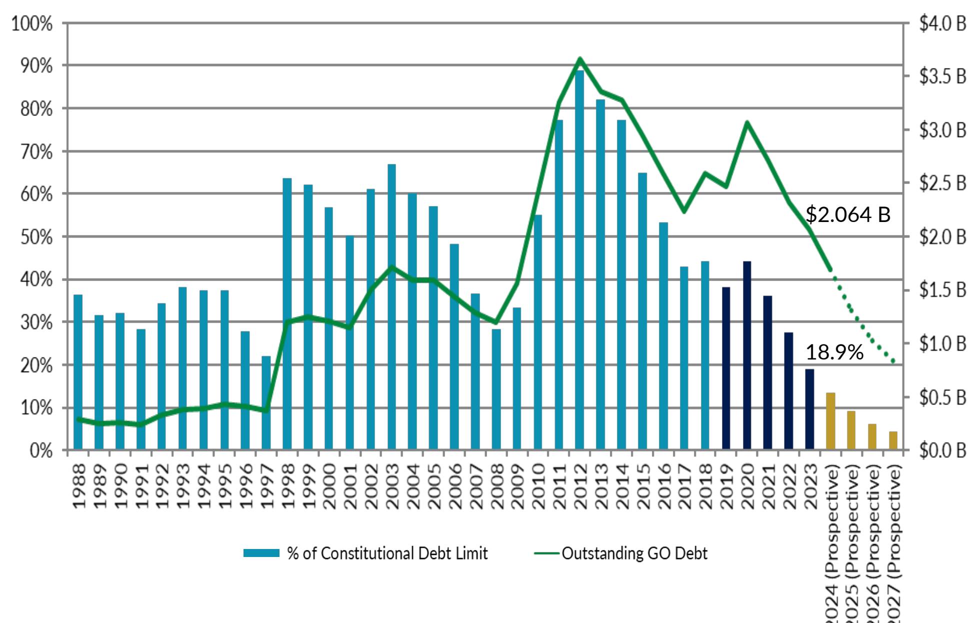
Figure 8 shows the historical and projected GO debt of the State both in total (green line) and as a percentage of the Constitutional Debt Limit (bars) for the past 35 years.

The figure illustrates that, historically, Utah has allowed debt to fall to around 20% to 30% of the Constitutional Debt Limit and reach as high as 87% in 2012.

In FY 2023, outstanding debt fell to 18.9% of the Constitutional Debt Limit, which constitutes at least a 35-year low in the relative debt levels of the State as determined by a percentage of allowable debt under the Constitution.

This conservative use of debt allows the State to borrow strategically should it have a need to do so in the coming years.

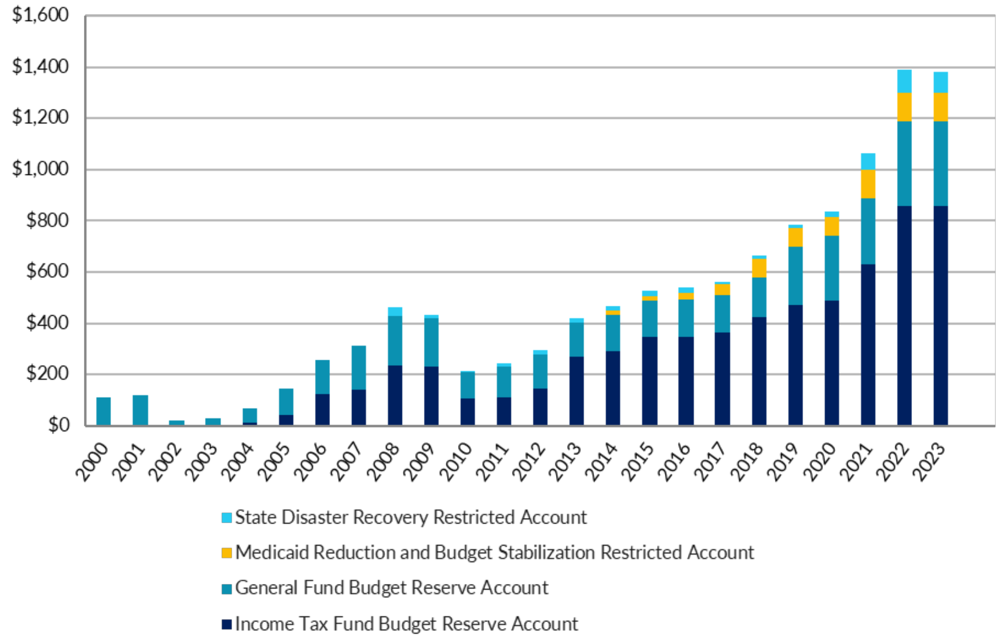
Figure 8. Total GO Debt Outstanding and as a Percentage of Constitutional Debt Limit (Fiscal Year)



Rainy Day Funds

Prior to finalization of end of year balances in FY 2023, the State of Utah had $330 million of balances in its General Fund Budget Reserve Account, $856 million of balances in its Income Tax Fund Budget Reserve Account, $114 million of balances in its Medicaid Reduction and Budget Stabilization Restricted Account and $79 million of balances in its State Disaster Recovery Restricted Account. The General Fund rainy day balance represents 8.2% of FY 2023 General Fund appropriations and the Income Tax Fund rainy day balance represents 11.2% of FY 2023 Income Tax Fund appropriations.

Figure 9. Utah Rainy Day Funds, FY 2000 - FY 2023 (Fiscal Year)



Source: Governor's Office of Planning and Budget

State Revenue[14]

State budgets across the nation experienced moderating revenue collections after two years of double-digit growth. Utah shared this moderating experience in FY 2023 and it is anticipated that it will in the out-year as well.

The extraordinary revenue growth in FY 2021 and FY 2022 was underpinned by unprecedented federal fiscal stimulus, shifts in consumer behavior, pent-up demand for services, housing value increases, tight labor markets, and broad-based price increases throughout the economy.

Economic indicators suggest that the economy is returning to normal, with most of these variables already having returned, or well on their way to returning, to what would be expected given historical averages.

As seen in Table 3, in FY 2022, unrestricted sales tax collections grew by 18.0% on a year-over basis, but are expected to decline by 2.2% on a year-over basis in FY 2023 (as compared to a consensus revenue anticipated growth rate of 6.4%).

Meanwhile, individual income tax increased by 7.7% in FY 2022 and corporate income tax increased by 5.3%. In FY 2023, individual income tax revenues are expected to decline by 10.8% (against a consensus expectation of a 1.6% decrease) and corporate income tax collections are expected to decrease by 21.2% (against a consensus expectation of 16.5%).

FY 2023 budgeting decisions were made with a high likelihood of a shortfall in mind. Given so, the State's budget situation can still be described as robust.

It is anticipated that the economy will continue to normalize and that this will be associated with moderating revenue growth in FY 2024 and FY 2025.

Table 3. Major Revenue Sources and Funds in Millions, FY 2020 - FY 2024

Major Revenue Sources & Funds	FY 2024 Consensus		FY 2023 Estimated		FY 2023 Consensus	
Source	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*
Unrestricted Sales Tax	$3,405.7	12.4%	$3,029.5	-2.2%	$3,297.8	6.4%
General Fund	**$4,210.6**	**11.3%**	**$3,784.4**	**1.7%**	**$4,098.3**	**10.2%**
Sales Tax Earmarks & Set-Asides	$1,244.2	4.1%	$1,194.7	9.8%	$1,207.4	10.9%
Individual Income Tax	$6,738.9	11.6%	$6,038.0	-10.8%	$6,663.3	-1.6%
Corporate Income Tax	$732.6	-0.8%	$738.3	-21.2%	$782.7	-16.5%
Income Tax Fund	**$7,575.8**	**0.2%**	**$7,560.5**	**-3.1%**	**$7,560.5**	**-3.1%**
Total General Fund & Income Tax Fund	**$11,786.4**	**10.8%**	**$10,637.9**	**-7.7%**	**$11,658.8**	**1.2%**
Motor Fuel Tax	$447.5	**5.8%**	$422.80	5.9%	$409.8	2.6%
Special Fuel Tax	$207.6	**14.1%**	$182.00	4.7%	$188.5	8.4%
Other	$145.4	**-2.1%**	$148.50	22.3%	$137.7	13.4%
Transportation Fund	**$800.5**	**6.3%**	**$753.3**	**8.5%**	**$736.0**	**6.0%**

Major Revenue Sources & Funds	FY 2022 Actual		FY 2021 Actual		FY 2020 Actual	
Source	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*	*Collections*	*Y/O Growth*
Unrestricted Sales Tax	$3,098.5	18.0%	$2,625.3	15.9%	$2,265.3	7.0%
General Fund	**$3,719.4**	17.3%	**$3,171.6**	**12.1%**	**$2,829.0**	**7.4%**
Sales Tax Earmarks & Set-Asides	$1,088.3	17.1%	$929.3	14.0%	$815.0	18.1%
Individual Income Tax	$6,771.9	26.0%	$5,375.5	13.9%	$4,720.4	9.3%
Corporate Income Tax	$937.0	37.3%	$682.7	64.2%	$415.9	-20.2%
Income Tax Fund	**$7,805.0**	27.9%	**$6,100.7**	**17.1%**	**$5,210.4**	**6.1%**
Total General Fund & Income Tax Fund	**$11,524.4**	24.3%	**$9,272.3**	**15.3%**	**$8,039.4**	**6.6%**
Motor Fuel Tax	$399.3	5.2%	$379.5	8.1%	$351.0	-5.5%
Special Fuel Tax	$173.9	1.1%	$172.0	12.1%	$153.4	7.8%
Other	$121.4	6.0%	$114.5	4.5%	$109.6	3.4%
Transportation Fund	**$694.6**	4.3%	**$665.9**	**8.5%**	**$614.0**	**-1.0%**

Source: Governor's Office of Planning and Budget

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.

Conclusion

Utah boasts a long history of robust and cooperative financial prudence, coupled with a commitment to budgetary restraint. Because of the State's conservative fiscal strategies, debt management, and other financial policies, Utah stands among only a handful of states to be rated AAA by the major credit rating agencies. This distinction enables the State to fund major projects with debt at the most favorable interest rates.

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's debt levels are higher than other highly-rated states' averages. This can be explained by Utah's rapid growth, which results in higher 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 impact 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 the need to borrow arise. However, now may not be the most advantageous time to borrow because: 1) interest rates are at the highest levels since 2007, 2) State revenues remain robust, and 3) labor markets are still relatively tight.

The Office of State Treasurer is not aware of any current legislative plans to authorize or increase debt in the near future.

The Office of State Treasurer encourages legislative and executive branch officers contemplating financing needs to reach out and discuss these with the office. Office staff are also available to address any questions pertaining to the State's credit rating and debt management.

1. Utah Code Annotated §63C-25-203: https://le.utah.gov/xcode/Title63C/Chapter25/C63C-25-S203_2022050420220504.pdf.
2. Utah Code Annotated §63B-1-308: https://le.utah.gov/xcode/Title63B/Chapter1/C63B-1-P3_1800010118000101.pdf
3. Utah Code Annotated §53G-4-801-808: https://le.utah.gov/xcode/Title53G/Chapter4/C53G-4-P8_2018012420180124.pdf
4. Utah Code Annotated §53G-5-609:

   https://le.utah.gov/xcode/Title53G/Chapter5/C53G-5-P6_2018012420180124.pdf
5. Utah Code Annotated §53G-4-801-808: https://le.utah.gov/xcode/Title53G/Chapter4/C53G-4-P8_2018012420180124.pdf
6. Utah Code Annotated §53G-5-609: https://le.utah.gov/xcode/Title53G/Chapter5/C53G-5-P6_2018012420180124.pdf
7. Zions Public Finance.
8. Utah Retirement Systems. (2021) "Annual Comprehensive Financial Report." https://www.urs.org/documents/byfilename/@Public%20Web%20Documents@URS@Reports@ACFR@2021@2021_ACFR@@application@pdf//.
9. See Table 2 and Figure 5.
10. See Table 2 and Figure 6.
11. See Table 2 and Figure 7.
12. Moody's Investors Service (September 2022). "Moody's State Liabilities Report Number 1335042." And Moody's Investor Services (September 2023). "Moody's State Liability Report Number 1364405." https://www.moodys.com/research/States-US-Ability-to-service-long-term-liabilities-and-fixed-costs-Sector-Profile--PBM_1364405?cid=GAR9PTU7VKT2671
13. Utah Property Tax Division. (2022) "Annual Statistical Report."
14. Governor's Office of Planning and Budget. (2023) https://gopb.utah.gov

INTERGOVERNMENTAL DEBT MODELING TEAM

Utah Finance Review Commission
Utah Office of State Treasurer
Utah Office of the Legislative Fiscal Analyst
Governor's Office of Planning and Budget
Utah Division of Finance
Utah Retirement Systems
Utah's Municipal Advisor, Zions Public Finance

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