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Applied economic and demographic analysis
by the David Eccles School of Business

Utah's bonded indebtedness stands in sharp contrast to that of the nation's.

U.S. and Utah Debt Policy: A Study in Contrasts

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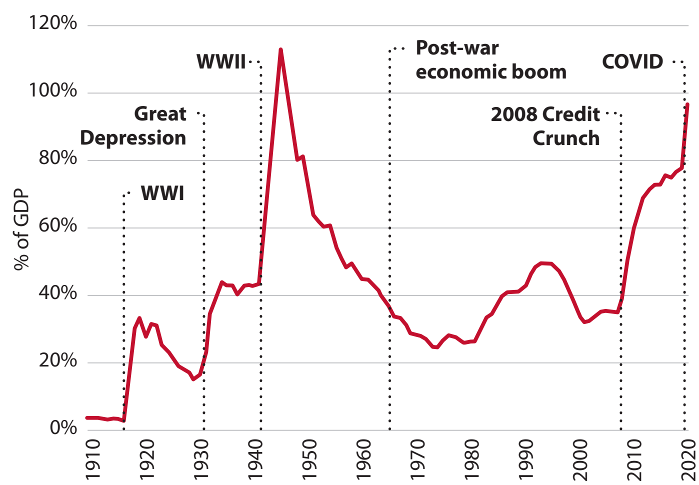
U.S. and Utah Debt Policy: A Study in Contrasts

The state of Utah's bonding practices vary dramatically from that of the federal government. Instead of borrowing for ongoing programs as the federal government does, Utah wisely borrows for needed capital projects such as highways and buildings. Borrowing in both the U.S. and Utah has increased dramatically over time. Federal government debt as a percent of the U.S. economy, currently at 124% of gross domestic product (GDP), raises serious questions, while Utah's borrowing demonstrates fiscal restraint and prudence.

Key findings:

- **U.S. federal debt** – In March 2022 the federal debt totaled $30.2 trillion. This includes public debt (debt held by the public) of $23.8 trillion (79%) and intragovernmental debt (debt held through intragovernmental transfers) of $6.5 trillion (21%). Foreign governments, particularly Japan and China, hold about one-third of the U.S. public debt.
- **U.S. government borrowing** – The federal government borrowed $2.8 trillion in federal fiscal year 2021, pushing the nation's debt to 124% of GDP. This is the highest percentage since 1947. The nation's debt spikes in times of national crises such as war, recession, or pandemic.
- **U.S. debt as a percent of the economy over time** – In 1960 federal debt as a percent of GDP stood at 53%. Forty years later – after dropping as low as 31% in 1974, 1979, and 1982 – it was virtually the same at 54%. From 2000 to 2020 federal debt as a percent of GDP increased from 54% to 129%, a spectacular increase driven substantially by recessions in 2002 and 2008 and the COVID-19 pandemic.
- **U.S. debt under recent presidential administrations** – U.S. debt increased under every president since Ronald Reagan. Accumulated debt by presidential administration over this time ranges from $2.967 trillion in the four-year presidency of Herbert Walker Bush to $11.402 trillion in the eight-year term of Barack Obama. A fair reading of the data shows that deficit spending has been the norm for almost every year of the last six presidents, with the exception of two years during the Bill Clinton administration.
- **Utah's debt limits** – The state of Utah has both a constitutional and statutory debt limit. The U.S. government does not have any debt limitations, but does have a statutory limit. Utah's constitution limits debt to 1.5% of the fair market value of all taxable property in the state. Utah's statutory debt limit is more restrictive but frequently avoided through statutory exemptions.
- **Utah's AAA bond rating** – Utah's state debt is lower than the national average. The state's excellent credit record, strong economy, low amortization terms, and modest use of debt have earned the state high credit ratings. Utah is one of 14 states to have the highest credit rating from each of the three major bond rating agencies (Fitch, Moody's, and Standard & Poors).
- **Utah's fiscal prudence** – Utah's debt is used exclusively for capital projects such as roads and buildings. Investment in the state's capital stock serves future generations who also pay for this investment. From 2001 to 2020, the state issued $8.2 billion in bonds for needed capital projects and still maintained its AAA bond rating. This signals that Utah borrows prudently.

U.S. Debt Held by the Public as a Percent of GDP, 1910–2021



Sources: St Louis Fed - FYGFGDQ188S and cbo.gov/publication/21728 - Accessed 31 Aug 2021

Table of Contents

Part One: U.S. Government Debt

In federal Fiscal Year 2021, the federal government spent $6.8 trillion. However, revenues amounted to only $4.0 trillion, leaving a deficit of $2.8 trillion. This deficit had to be covered by borrowing. Just like individuals, the federal government can borrow money. That FY 2021 federal deficit pushed the nation's debt to 124% of Gross Domestic Product (GDP), the second highest in the nation's history after 2020 (129%). Though federal debt is the result of annual spending beyond the revenues received, it is the nation's response to wars, economic downturns, and most recently the COVID pandemic that has caused total debt to increase to the level it is at currently. With the COVID crisis retreating, total debt is expected to decrease as a percent of the nation's GDP, but stay at a level that still alarms many.

Just like the federal government, Utah state government borrows money for items it deems appropriate. However Utah's borrowing practices are significantly different. Instead of borrowing to pay for onging programs as does the federal government, the state borrows mostly for capital projects like highway construction and maintenance or college and state buildings. An important part of state borrowing is the state constitution which limits state borrowing by capping general obligation debt to 1.5% of the "fair market" value of all taxable property in the state. Conversely, the Constitution of the United States places no limits on federal borrowing.

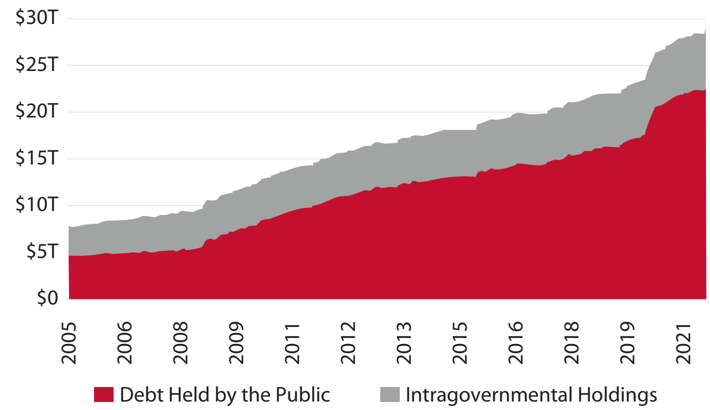
At this point, since we have used both the terms *deficit* and *debt*, let's be clear what each means.

- **Deficit** is the amount the federal government spends (appropriates) beyond its annual revenue. As stated above, the annual deficit for 2021 amounted to $2.8 trillion.
- **Debt** is the total amount the federal government owes after adding all the annual deficits and subtracting the surpluses (which have been non-existent the last several decades).

According to the U.S. Treasury, as of early March 2022, federal debt totaled $30.2 trillion. That amount can be divided into two categories: intragovernmental debt and debt held by the public.[1]

- **Public debt** – Currently, $23.8 trillion or 79% of the federal debt is public debt or debt held by the public. Foreign governments hold about a third of that debt. Japan holds the most at $1.3 trillion while China is second at $1.0 trillion. Some express deep concern that the U.S. is in debt to foreign nations, but it is important to note that combined, these two nations only hold 8.5% of the U.S. public debt, certainly not a large amount of the total. The balance of the debt is owned by U.S. banks, the Federal Reserve, state and local governments, mutual funds, pension funds, insurance companies, and people holding savings bonds.

Figure 1: Federal Government Debt



Source: https://www.thebalance.com/who-owns-the-u-s-national-debt-3306124

- **Intragovernmental debt** – Of the total federal debt, government agencies hold $6.5 trillion or 21%. Social Security Administration trusts hold the largest portion at $2.8 trillion. The Military Retirement Fund holds $1.03 trillion, and the Civil Service Retirement and Disability Fund holds $925.8 billion. These three holdings contain more than half of all intragovernmental debt holdings

Figure 1 shows the history of both public and intergovernmental debt and, of course, total debt.[2]

As can be seen from Table 1 *(next page)*, the nation has always had some level of debt during the entire 20th and 21st centuries. In fact the nation has held some debt its entire history except under President Andrew Jackson who did pay off the nation's debt completely. That the nation has debt has not been much of an issue. It is the skyrocketing of the debt in the last few decades that is alarming to many.

The following section discusses how the national debt came to be so large by short discussions of the last five presidential administrations and their impact on U.S debt.

Federal expenditures in the 20th and 21st centuries

Reagan Administration, 1981–1989

The upward trend in U.S. debt accumulation started in President Ronald Reagan's administration. During his eight years in office, the national debt increased from about $996 billion to $2.6 trillion, an increase of 281%. As a result, debt increased remarkably from 31% to 51% of GDP. The deficit developed from large income tax cuts, an increase in defense spending, and an insufficient cut in non-military federal expenditures which Reagan wanted, but which the Democratic controlled Congress refused to approve.

Table 1: Debt and Debt-to-GDP Ratio by Year

Fiscal Year	Debt (billions)	Debt to GDP Ratio
1929	$17	16%
1930	$16	17%
1931	$17	22%
1932	$20	34%
1933	$23	40%
1934	$27	40%
1935	$29	39%
1936	$34	40%
1937	$36	39%
1938	$37	42%
1939	$40	43%
1940	$43	42%
1941	$49	38%
1942	$72	43%
1943	$137	67%
1944	$201	90%
1945	$259	114%
1946	$269	118%
1947	$258	103%
1948	$252	92%
1949	$253	93%
1950	$257	86%
1951	$255	74%
1952	$259	71%
1953	$266	68%
1954	$271	69%
1955	$274	64%
1956	$273	61%
1957	$271	57%
1958	$276	57%
1959	$285	55%
1960	$286	53%
1961	$289	51%
1962	$298	49%
1963	$306	48%
1964	$312	46%
1965	$317	43%
1966	$320	39%
1967	$326	38%
1968	$348	37%
1969	$354	35%
1970	$371	35%
1971	$398	34%
1972	$427	33%
1973	$458	32%
1974	$475	31%
1975	$533	32%
1976	$620	33%
1977	$699	34%
1978	$772	33%
1979	$827	31%
1980	$908	32%
1981	$998	31%
1982	$1,142	34%
1983	$1,377	38%
1984	$1,572	39%
1985	$1,823	42%
1986	$2,125	46%
1987	$2,350	48%
1988	$2,602	50%
1989	$2,857	51%
1990	$3,233	54%
1991	$3,665	60%
1992	$4,065	62%
1993	$4,411	64%
1994	$4,693	64%
1995	$4,974	65%
1996	$5,225	65%
1997	$5,413	63%
1998	$5,526	61%
1999	$5,656	59%
2000	$5,674	55%
2001	$5,807	55%
2002	$6,228	57%
2003	$6,783	59%
2004	$7,379	60%
2005	$7,933	61%
2006	$8,507	62%
2007	$9,008	62%
2008	$10,025	68%
2009	$11,910	82%
2010	$13,562	91%
2011	$14,790	95%
2012	$16,066	99%
2013	$16,738	100%
2014	$17,824	102%
2015	$18,151	100%
2016	$19,573	104%
2017	$20,245	104%
2018	$21,516	104%
2019	$22,719	106%
2020	$26,477	129%
2021	$29,617	124%
2022		123%

Source: U.S. Department of the Treasury, Bureau of Economic Analysis

Bush Administration, 1989–1993

George H.W. Bush, who served with President Ronald Reagan, became the fourth incumbent vice-president to become president. In his four years, federal debt increased modestly from 51% to 62%. This relatively slow growth was probably helped by the tax increases he pushed through Congress specifically to reduce the annual deficits. Unfortunately for the president, the tax increases were not well received by Americans and became one of several reasons for his failed bid to win re-election.

Clinton Administration, 1993–2001

Federal debt as a percent of GDP fell slightly during the presidency of Bill Clinton who had annual budget surpluses in the last two years of his administration – 1999-2000. This made Clinton and Richard Nixon the only two presidents in the 20th century to run budget surpluses during their terms of office. Nixon ran a surplus in one year - 1969. Clinton's surplus budgets lowered federal debt from 64% to 59% of GDP.

Bush Administration, 2001–2009

President George W. Bush inherited a strong economy and, like Reagan, cut taxes. However, shortly after the tax cuts, Al Qaida attacked the United States on September 11, 2001 leading to wars in the Middle East and Afghanistan. Between his administration's tax cuts and increased military spending, Bush more than doubled the national debt, increasing it from $5.8 trillion to $11.9 trillion. As a percent of GDP, the debt grew from 55% to a whopping 82%.

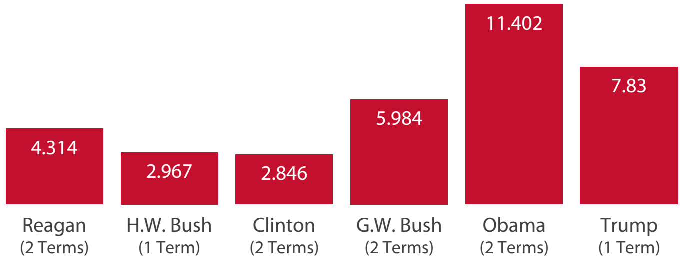
Obama Administration, 2009–2017

Federal debt continued to rise during the administration of President Barack Obama mainly due to a serious recession commonly referred to as the Great Recession. In an attempt to pull the nation out of the serious financial downturn, President Obama and Congress provided an $800 billion stimulus package. The stimulus certainly helped bring the nation out of recession, but it also raised federal debt from 82% to 104% of GDP. The most significant piece of legislation during the Obama administration was the passage of the Affordable Care Act in 2010. The act became the first major piece of health care law since the passage of Medicaid and Medicare in 1965. It provided health care coverage to 20-24 million people, half of that due to the expansion of Medicaid. The cost of the program came mainly from new taxes (taxing primarily the top 1%) and cuts to Medicare provider premiums.[3] This is one of the few times that taxes have been increased in decades.

Trump Administration, 2017–2021

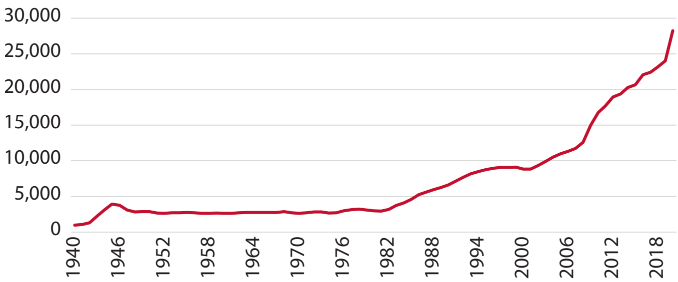
Federal debt increased further in the administration of President Donald J. Trump as he and Congress passed a $1.9 trillion tax cut in 2017. Then when the COVID-19 virus hit the nation (and the world), President Trump and Congress approved significant stimulus packages. The Coronavirus Aid, Relief, and Economic Security Act (CARES) in March 2020 and the Consolidated Appropriations Act in December 2020. These stimulus packages helped citizens survive the serious recession brought on by the COVID-19 pandemic. However, federal debt jumped from 104% to 136% of GDP though it fell a full 10 percentage points to 126% by the end of his term.

Figure 2: Accumulated Debt by Presidential Administration in Trillions of Dollars



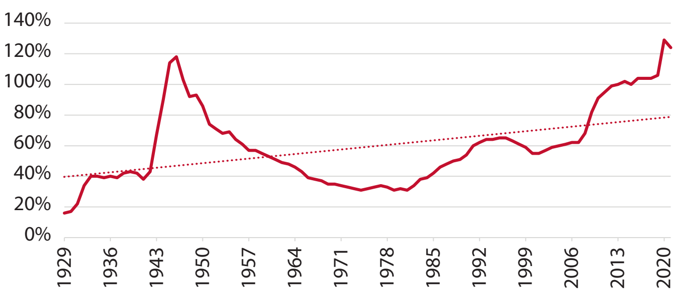
Source: U.S. Department of Treasury

Figure 3: Federal Debt in 2021 dollars (billions)



Source: U.S. Department of Treasury

Figure 4: Federal Debt as a Percent of the Nation's GDP



Source: Statista.com; Tradingeconomics.com

Biden Administration, 2021-2025

President Joe Biden's American Rescue Plan Act (now the third bill addressing the pandemic-caused recession) will cost $1.9 trillion. Nevertheless debt as a percent of GDP fell slightly to 123% in 2022. It is not going out on a limb to assume that annual federal budget deficits, and even more so the national debt, will be with us for the foreseeable future without significant changes in the nation's public finance patterns.

Total debt and debt as a percent of gross domestic product

Figure 4 shows graphically what Table 1 shows numerically, federal debt from 1929 to 2021. As can be seen in Table 1 in 1960 federal debt as a percent of GDP stood at 53%. In 2000, 40 years later, it was virtually the same at 55%. Then from 2000 to 2020, federal debt increased from 55% to 129% - a spectacular increase. The small dip in 2021 is the result of less federal spending as the COVID 19 pandemic eases.

Figure 5: U.S. Debt by Presidential Administration, 1981–2021

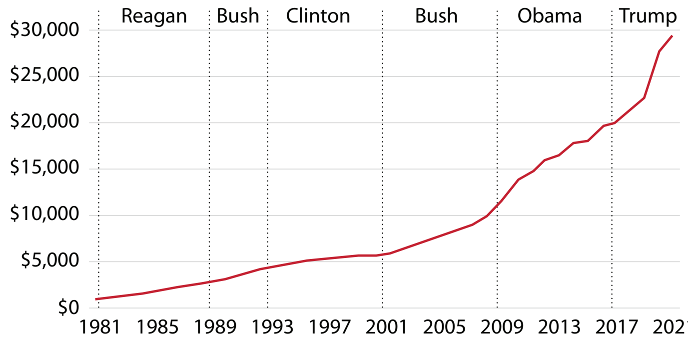


Figure 2 and Figure 5 show federal debt by presidential administration two different ways. Figure 2 shows the total federal debt accumulation by administration in a bar graph. As can be seen President Obama accumulated the largest amount of debt of these presidencies. President Trump ranks second though he only served one term. Figure 5 shows how the debt grew in total under each of the discussed administrations in a linear graph.

Figure 4 shows federal debt during the same timeframe but as a percent of the nation's GDP. Figure 5 also shows federal debt began a significant increase beginning with the Reagan administration in 1980. Debt continued to grow until the Clinton administration in the 1990s when it took a small dip. Federal debt has been increasing ever since up to 2020, then the small dip during Biden's first year in office.

Federal debt and sound economic policy

Federal debt and annual federal deficit financing are not by themselves fiscally unsound or irresponsible. Most economists agree that there are times when deficit financing of federal expenditures is the wise choice. Examples of such financing seems responsible when trying to pull the nation out of recession as several presidential administrations have done. Financing a war can be another justifiable use of deficit financing. During World War II, President Franklin Roosevelt and congress increased the national debt from 38% of GDP in 1940 to 118% in 1946. That is the largest percent increase in the debt of one presidential administration in our nation's history. However, few would argue that ridding the world of Germany's Adolf Hitler and a militaristic Japan were unwise decisions. Quite the contrary; the war saved democracy in Europe and allowed Japan to transform into a representative form of government.

How much debt is too much?

Federal debt has been a hotly debated topic for decades, but according to the Brookings Institution, "No one really knows at what level a government's debt begins to hurt an economy." Some economists feel it is advisable to keep the United States' federal debt below annual GDP, while others only see a need to keep interest payments on the debt below annual GDP. A small group of economists have gained prominence by their theory that a sovereign nation can never really go bankrupt because it can simply print more money. Some studies show that increases in national debt beyond 77% of GDP tend to hurt those nations' economies, but there are so many currencies tied to the American dollar, it's difficult to predict if these norms apply to the United States.[3] This is all to say that there is little consensus among economists on the effects of the United States' ballooning debt.

One aspect of debt that most economists agree on is that it should be used for important societal investments and not thrown about frivolously. There is no reason to take on unnecessary debt, but bonding projects can be crucial in securing a prosperous future for the United States.

National debt per person

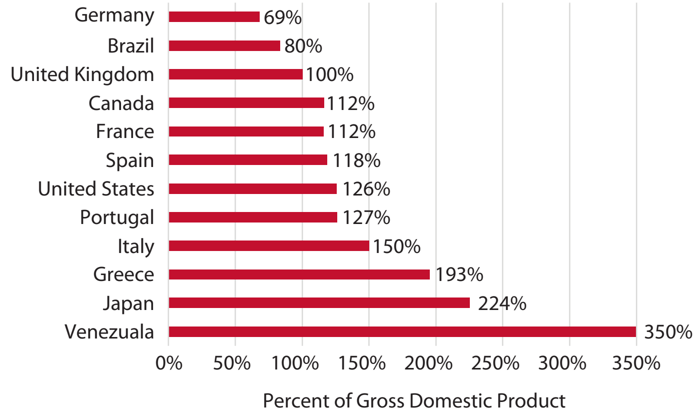
The discussion so far has been on the debt of the United States. What about the debt of other nations? A recent article in *CEOWORLD Magazine* stated,

> *"With a population of 126.8 million, Japan now has the highest national debt per person. Data gathered and calculated by the CEOWORLD magazine shows that each Japanese national owes $89,525 of the $11.35 trillion national debt. Other countries with high national debt per citizen include Belgium ($50,462), the United Kingdom ($49,211) and Italy ($47,147)…. The United States with the highest global national debt of $23.2 trillion has a $70,180 debt per person. On the other hand, China with a population of about 1.4 billion, debt per citizen is over 15 times lower than Japan's, and over 11 times lower than the United States. Each Chinese national owes $5,866.[4]"*

That total U.S. debt is the highest of any nation in the world should not by itself be alarming. The United States has by far the largest economy in the world and significantly larger than second place China. With a population of only 23% of China's, the U.S. has an economy that is over four times as large. The issue that concerns many economists and public financial experts is the amount of debt as a percent of the nation's GDP.

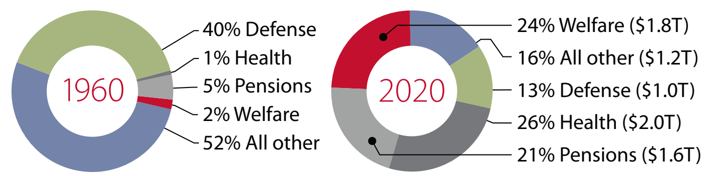
Figure 6 shows several nations and their debt relative to GDP. The nation with the largest debt to GDP in the world is Venezuela at 350%. The other nations listed are not in exact order relative to the total rankings of all nations but are in order relative to the other nations in the figure: Greece 193% and Italy 150%. The United States stands at 126%. (This is a different value than the one shown in Table 1 because the table uses year 2021). As shown, several modern countries have debt below that of the United States: Belgium, France, Spain, Canada, United Kingdom, Brazil, and Germany. The United States has the largest amount of federal debt of all nations but stands well below the top of the rankings relative to GDP.[5]

Figure 6: Government Debt by Nation, 2021



Source: worldpopulationreview.com/countries/countries-by-national-debt

Figure 7: Federal Expenditures: Defense vs Social Programs



Source: https://www.bea.gov/resources/learning-center/what-to-know-gdp

Federal debt, federal deficit financing and the constitution

The U.S. Constitution places no limits on federal spending or borrowing, though attempts to add a constitutional amendment limiting spending or borrowing is frequently discussed.

Though the federal government has no constitutional limit on borrowing, it does have a statutory limit. As one scholar puts it, "To provide more flexibility to finance the United States' involvement in World War I, Congress modified the method by which it authorized debt in the *Second Liberty Bond Act of 1917*. Under this act, Congress established an aggregate limit, or 'ceiling' on total amount of new bonds that could be issued."[6] Since then, the limit has been amended numerous times. Recently, raising the limit has become a political football with both political parties battling for their positions and criticizing the other side for intransigence. This year has been particularly partisan and bitter, but on 30 May President Biden and House Speaker McCarthy (R) reached an agreement allowing the debt ceiling to be raised. Both houses quickly signed the bill and on 3 June the president signed the bill thus allowing the government to pay its bills and move forward. On 1 October Congress avoided a shut-down again by passing another stop-gap measure; this one effective until 17 November. So, the issue has not yet been resolved but just postponed.

The president and congress can borrow any amount they want so long as lenders are willing to lend. Federal borrowing is almost always controversial. Yet, the borrowing continues because of the alternatives to not borrowing have their own set of problems. Let's look at each.

Causes of national debt

As can be seen from Figure 7, much of this nation's debt has occurred as a result of the national government's response to major crises:

Wars
- Civil War: 1861-65
- WW I: 1919-21
- WW II: 1940-45

Economic crises
- Great Depression – 1930-1940
- 2008 The Great Recession or Credit Crunch – 2008-2010

Health Crisis
- COVID Pandemic – 2018 and continuing

Reduce Expenditures

An historical look at the federal budget will be helpful here. Figure 7 shows federal outlays in 1960 and 2020. As can be seen, federal outlays in all categories are more in 2021 than in 1960 by substantial margins. However, the outlays that have grown the most are health, pensions and social services. These three categories accounted for just 13.2% of total outlays in 1960, but 71.1% in 2020.[7]

If there is to be any reduction in federal spending, reductions in these programs (or at least a reduction in the growth rates) must be part of the discussion. Social Security and Medicare are enormously popular programs, not only for seniors but their families – even essential to many. National defense is a huge expenditure and has its critics, but no nation has ever seriously threatened America's sovereignty since the War of 1812.[8] Defenders of military spending see this as proof that the United States' deterrence strategy is working. Others argue that it is likely that this same result would be accomplished with much smaller defense appropriations. Medicaid is the health insurance program for the nation's poor and needy. All industrialized nations have such a program. The passage of the Affordable Care Act in 2010 reduced the number of people without health insurance by almost half, providing insurance to some 20-24 million new persons. At least half of the new persons covered resulted from the expansion of Medicaid.[9]

Despite the pressure on federal expenditures coming from the nation's social programs, it is the cost of attending to major crises that have caused the several spikes in federal spending shown in Figure 8. Responding to the Great Depression with federal spending pushed debt from 17% in 1930 to 43% of GDP in 1939. World War II forced federal spending to increase from 38% to 118% of GDP. And most recently, the government's response to the COVID pandemic increased federal spending from 104% to 129% of GDP – the highest ever. (See Table 1 and Figure 8).

Raise Taxes

If cutting programs is difficult, then raising taxes to reduce the annual deficit is a powerful alternative. It is, however, an alternative that most voters, and therefore congress, would have a hard time swallowing. Tax increases since World War II have been few and far between indicating the difficulty of using this option. Despite the dislike for raising taxes, the United States has some of the lowest taxes in the developed world. In 2018, U.S tax revenue amounted to 24% of GDP. This is well below the weighted average of 34% from the nations in the Organization for Economic Co-operation and Development (OECD). This places the U.S. at 33rd out of the 36 member countries. Seven countries, all European, have taxes above 40% of their GDP.[10]

Debt restructuring

Extending debt may lower annual payments and thereby reduce the current cash flow burden, but it does not reduce or eliminate the debt burden. In fact it actually increases the overall burden because lengthening the term means more payments at the end of the term and as a result more overall costs. In other words, it may lower annual payments, but it does not address the size of the debt.

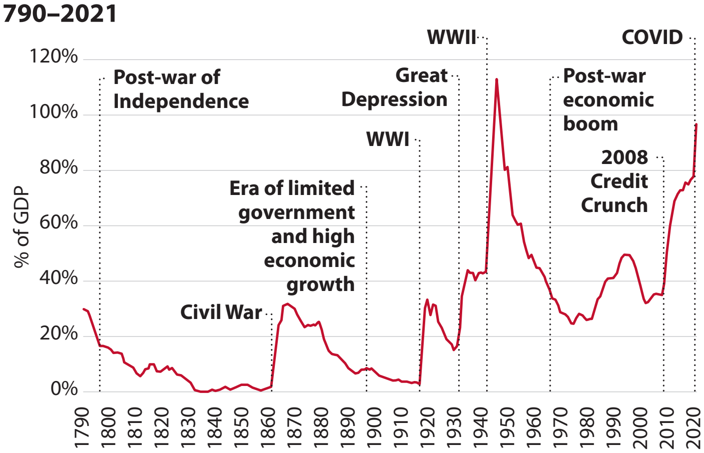
Monetizing the debt

This occurs when the federal government borrows money from the Federal Reserve Bank instead of selling bonds or raising taxes as is usually done. The FRB buying the debt is for all intents and purposes creating new money. As a result this practice is often called printing money. It is prohibited in many countries, because it is considered dangerous fiscal policy due to the potential of causing significant inflation.[11]

Grow the Economy

Adopt policies that promote economic growth which results in higher tax revenues and reduced need for counter-cycle spending on such programs as unemployment insurance, nutrition assistance, and Medicaid. Thus this option helps the government on both the revenue and expenditure side. It however, would require governmental discipline to keep expenditures from growing at the same rate as economic growth.

Figure 8: U.S. Debt held by the Public as a percent of GDP, 1790–2021



Sources: St Louis Fed - FYGFGDQ188S and cbo.gov/publication/21728 - Accessed 31 Aug 2021

Outright Default

Refuse to pay U.S. debt obligation. Such a drastic step would have serious consequences at home and abroad. U.S. lenders and those abroad would be very hesitant to loan the U.S. money again. If they did decide to do so it would be with higher interest rates, thus protecting the lenders to some degree but adding significant costs to the borrower. Russia, Greece, Argentina, Lebanon and Ukraine have all defaulted during the 20th century. Afterwards, their interest rates on loans from lenders were significantly higher and their bond yields rose significantly. It can be disastrous for an economy, but in all of the examples listed above, the countries who defaulted were in dire straits. Russia is very close to defaulting again as a result of the economic sanctions the West has recently imposed due to the country's invasion of Ukraine.

Part Two: Utah State Debt and Borrowing

Just like the federal government, Utah state government borrows money for items it deems appropriate. Furthermore, like the federal government, and individuals for that matter, the state's credit worthiness is rated according to the risk the creditor takes in assuming the loan. Credit rating agencies make these risk analyses. Lenders charge interest rates according to that risk.

Consumer credit ratings generally fall between numerical scores of 450 at the low or riskier end of the spectrum and at 800 or above at the high or least risky end. Instead of numbers, governments are rated on an alphabetical scale. The three dominant bond rating agencies differ slightly on how they rate governments, but the highest rating is AAA or Aaa and the lowest is D or C.[12]

Table 2 shows the bond ratings of the states and Figure 9 shows those ratings graphically. Utah is one of only 14 states with a AAA bond rating by all major bonding rating agencies – a remarkable fact. It is also the only state in the west with such a rating. Figure 8 displays this bond rating geographically. As can be seen in the table Utah is one of only 14 states that carries a AAA bond rating by all three bond rating agencies and the figure shows that Utah is the only state in the west with such a high rating. Clearly the bond rating agencies are telling bond dealers that Utah is a very safe risk when lending the state money.

Governments borrow money by issuing bonds. There are two main types of public bonds - general obligation bonds and revenue bonds.

Table 2: Bond Ratings 2021

State	
Alabama	AA
Alaska	AA-
Arizona	AA
Arkansas	AA
California	AA-
Colorado	AA
Connecticut	A
Delaware	AAA
D.C.	AA+
Florida	AAA
Georgia	AAA
Hawaii	AA+
Idaho	AA+
Illinois	BBB
Indiana	AAA
Iowa	AAA
Kansas	AA-
Kentucky	A
Louisiana	AA-
Maine	AA
Maryland	AAA
Massachusetts	AA
Michigan	AA
Minnesota	AAA
Mississippi	AA
Missouri	AAA

State	
Montana	AA
Nebraska	AAA
Nevada	AA+
N. Hampshire	AA
New Jersey	BBB+
New Mexico	AA
New York	AA+
North Carolina	AAA
North Dakota	AA+
Ohio	AA+
Oklahoma	AA
Oregon	AA+
Pennsylvania	A+
Rhode Island	AA
South Carolina	AA+
South Dakota	AAA
Tennessee	AAA
Texas	AAA
Utah	**AAA**
Vermont	AA+
Virginia	AAA
Washington	AA+
West Virginia	AA-
Wisconsin	AA
Wyoming	AA

Source: S&P Global

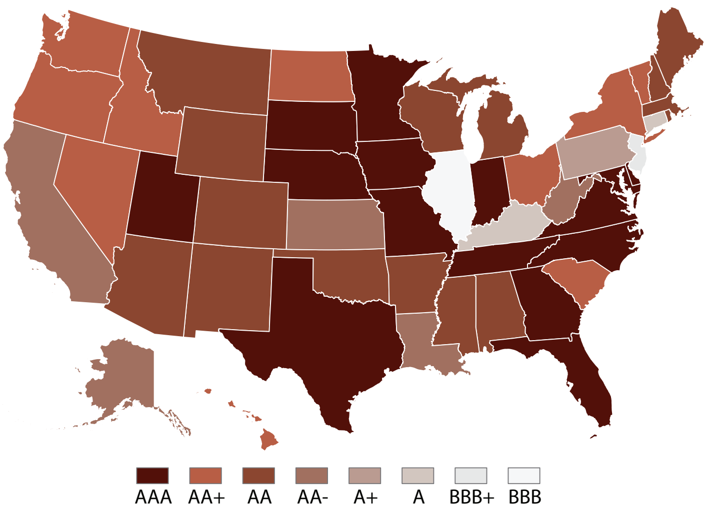
General obligation (G.O.) bonds

General obligation bonds are the major debt tool for most state governments. G.O. bonds are known as "full faith and credit" bonds because the security for repayment is the general credit and unlimited taxing power of the borrowing government. In other words, the promise to repay is unconditional and the creditor can look to the borrowing government to take whatever actions are necessary to assure repayment. Though various revenue and financial resources of the borrowing government may be utilized as the source of repayment, it is the pledge of the property tax that provides the basic underlying security.

In Utah, for every G.O. bond passed, a property tax is authorized by the Legislature if ever the state fails to appropriate funds to meet general obligation debt it has assumed. Though this has never happened, it is this promise that Utah State government makes when it issues a G.O. bond. Because a government makes such a promise with a G.O. bond, the interest rate it carries is generally lower than an interest rate for a revenue bond.

Fortunately for Utah taxpayers, most of Utah's local governments also carry very attractive bond ratings. Table 3 shows the bond ratings of selected Utah cities and counties from S&P Global.

Figure 9: General Obligation Bond Ratings by State, 2021



Source: S&P Global

Table 3: Bond Ratings of Selected Utah Counties and Cities

City	
St. George	AA
Salt Lake City	AAA
Provo	AAA
South Jordan	AA+
Lehi	AA+
West Valley City	AA
West Jordan	AA-
Orem	AA+
Sandy	AAA
Ogden	AA-
Millcreek	AA+
Murray	AA+
Draper	AAA
Bountiful	AA

County	
Salt Lake	AAA
Utah	AA+
Washington	AA+
Uintah	AA-
Emery	A+
Box Elder	A-
Carbon	AA
Davis	AAA
Emery	A+
Sevier	AA-
Summit	AAA
Tooele	AA-
Wasatch	AA
Weber	AA

Source: S&P Globals[3]

Constitutional and statutory limits for Utah

Unlike the Constitution of the United States, the Utah Constitution limits the state's ability to borrow. Utah's general obligation debt is capped at 1.5% of the "fair market" value of all taxable property in the state,[6] a cap that has never been fully used. However, during the Great Recession when property values declined and large bonds were issued, debt did reach 87% of the state's constitutional capacity. However, this brushing up against the limit was short lived. As the state's economy improved, so did property values, thus increasing the debt limit. The limit seems wise for two reasons. First, capping state debt keeps legislatures and the governor from assuming that borrowing is unlimited. Second, limiting state debt to a small fraction of the value of all taxable property allows this cap to adjust upward based on increases in property values. In other words, as the taxable value of property in Utah increases, so does the capacity of the state to borrow. Thus, the need to amend the Utah Constitution to meet the increasing costs of goods is eliminated.

In 1989, the Legislature passed a more restrictive debt limit than the constitutional one. *SB 270 State Government Spending and Limitations* restricts borrowing to 20% of the appropriation limit adopted by the Legislature in that year. The appropriations limit uses 1985 as the base year and restricts spending increases to amounts reflecting the increases in population, personal income, and inflation. The debt limit can be exceeded only if "approved by more than a two-thirds vote of both houses of the Legislature."[7] Though comforting to some, the statutory debt limit is more of a guideline that influences debt decisions than a serious limit on debt. For example, in 1997, the Legislature voted to issue $600 million in G.O. bonds to reconstruct the I-15 freeway in Salt Lake County. This amount would have put the state beyond its statutory debt limit. So the Legislature simply placed the bond statutorily outside of the debt limit and issued

Table 4: Current Outstanding GO Bond Principal for the State of Utah as of 9/11/2020

Bond Issue	Issue Date	Final Maturity Date	Purpose of Bonds	Current Principal Outstanding
2009D	9/29/2009	7/1/2024	Highway	$329,900,000
2010B	9/30/2010	7/1/2025	Highway	$40,735,000
2011A	7/6/2011	7/1/2021	Highway	$43,990,000
2013	7/30/2013	7/1/2022	Highway	$30,650,000
2015 Refunding	4/29/2015	7/1/2024	Highway	$117,785,000
2017	7/12/2017	7/1/2032	Highway/Prison	$113,630,000
2017 Refunding	12/15/2017	7/1/2028	Highway	$115,000,000
2018	2/28/2018	7/1/2032	Highway/Prison	$280,085,000
2019	2/5/2019	7/1/2033	Highway	$115,155,000
2020	2/27/2020	7/1/2034	Highway	$428,680,000
2020B	5/27/2020	7/1/2034	Highway/Prison	$447,315,000
Total Principal Outstanding:				**$ 2,512,925,000**

Source: Office of the Utah State Treasurer the bond for the highway project. Furthermore, beyond a basic determination of lawful compliance, the statutory debt limit is generally ignored by bond rating agencies. They use the constitutional debt limit as one of many pieces of information when rating Utah's bond requests.

Historical use of government obligation debt

The Utah Legislature made very rare use of general obligation debt through the first 80 years of statehood. It issued its first bond for $1 million in 1911 to help finance the building of the State Capitol. The state sold a second bond 22 years later in 1933 to address the economic needs growing out of the Great Depression. The third use of debt occurred in 1965, 54 years after the first bond and 32 years after the second, indicating how rare it was for the state to bond. Governor Calvin Rampton had made bonding for university buildings a significant part of his 1964 gubernatorial campaign. His November victory gave him the ability to follow through with the promise. In proposing his 1965 bond, he stated,

> *"For some reason, this state has had a history of antipathy toward borrowing to meet capital improvement needs. The past leaders of our state's government have avoided bonding, counseled against it, and vetoed measures to make it possible. I have no such strong feeling either for or against the simple issue of borrowing to meet our needs. And, had our predecessors kept abreast of our building needs from year to year in the past 16 years, I would not need to recommend a bonding program of magnitude today. For I can see no virtue in bonding. But I see even less virtue in leaving critical needs unmet if bonding would help us to meet them."*[9]

The bond bill passed, but not without opposition from conservative legislators. The House vote was 37-31-1 and the Senate vote 15-10-2. As passed, the $67 million bond appropriated $65 million for buildings needed at the state's rapidly expanding colleges and universities and $2 million for land acquisition for state parks.[10] Governor Rampton made the following comment about the issuance of the bond in his memoir, *As I Recall*:

> *"When the bond came up for sale around July, we were able to get a very good rate. We got bids and sold the bonds for an interest rate of 2.92 percent.… Furthermore, although we had the money available immediately, we did not spend it immediately. The interest rate on money in the general market was increasing quite rapidly and we were able to invest the unused portions of the fund for the period that we held them for rates up to 7 percent." As a result, the effective rate of interest that the state had to pay on the bonds over their fifteen-year life was only about 1.42 percent."*[11]

This bond was substantially larger than the other two previous bonds issued by the state and, importantly, set a precedent for using bonding as a significant source of capital infrastructure financing for governors and legislatures that followed.

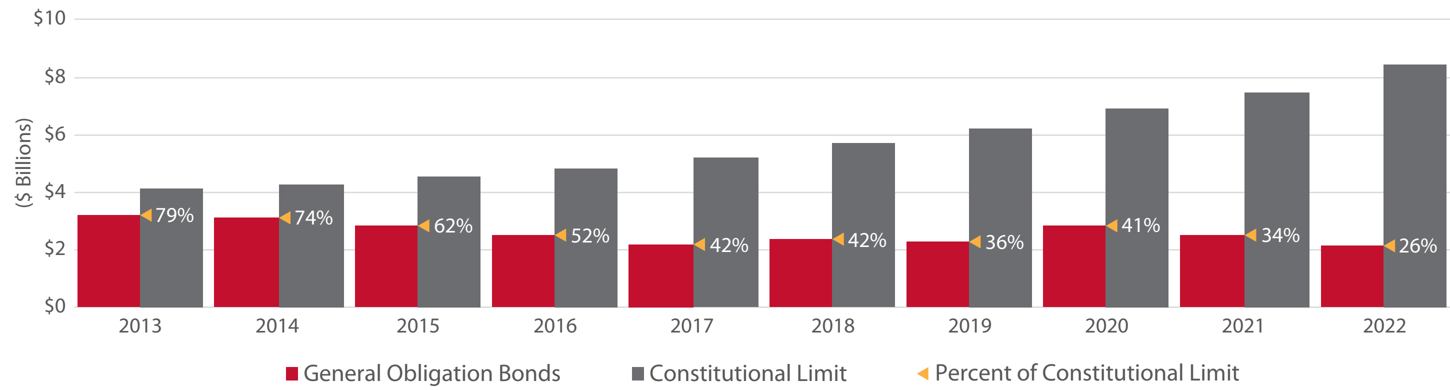
In 1975, Governor Rampton (now in an unprecedented third term) got the Legislature to approve another bond. Most of this $68.9 million bond went for expansion of the University of Utah Medical Center.

The Legislature approved a $50 million bond in 1978 and a $129 million bond in 1980. In 1985, a legislative controversy centered on whether to bond for capital improvements or to finance such projects from current revenues. After much debate, the Legislature approved a bond in a special session. In addition, Governor Norman Bangerter, elected in November 1984, proposed refinancing the state's existing bonds. The purpose was to shorten the debt term and obtain a better interest rate. In his message to the Legislature, the Governor stated, "With the short debt repayment, Utah can retire one year's debt obligation and add another year at the end." Such a short-term bonding program, the governor argued, is essentially "pay-as-you-go." Whether "pay-as-you-go" is an accurate description or not, the Legislature bought the argument and $81 million in G.O. bonds were refunded and the term of the new bonds shortened to six years.

Another nine years passed before the Legislature considered another bond. In that year, 1994, the Legislature approved $75.8 million in G.O. bonds for highway construction and the University of Utah Marriott Library. The 1995 Legislature authorized $45 million in bonds despite a revenue surplus and the passage of a $90 million tax cut. The 1996 Legislature approved a $20 million bond to finance several capital facilities such as the Huntsman Cancer Institute, college facilities, and other state agency buildings.

In 1997, Governor Michael Leavitt and the Legislature addressed a serious backlog of transportation matters by authorizing $600 million in bonds for highways and an additional $122 million for other state projects. This was the largest authorization in history and more than ten times the bond amount proposed by Governor Rampton just 32 years earlier. *SB 92 Bonding and Debt Financing* increased the G.O. debt of the state threefold. There was substantial discussion about the advisability of such a huge increase in the state's debt. Governor Leavitt worked tirelessly to get the support needed. Despite the concerns expressed with the size of the bond, there was really no alternative to bonding other than an even bigger increase in the motor fuel tax (it was being raised by 5 cents that session) and further delays in the needed projects. Despite the discussion, the bond *SB 2 Bonding and Debt Financing* passed by large majorities. Most of the bond proceeds paid for the reconstruction of Interstate 15 in Salt Lake County. The completion of this major project just before the 2002 Olympic Winter Games improved traffic mobility tremendously for residents and visitors alike.

Figure 10: Utah G.O. Bonded Indebtedness, Constitutional Limit, and Percent of Limit, 2013–2022



Source: Utah Governors' Office of Management and Budget

In 1998, the Legislature authorized $455 million in general obligation bonds. Of that amount, $240 million went to fund transportation projects. The rest was earmarked for capital projects at state universities, correctional facilities, etc. In 1999, the Legislature authorized $130 million in G.O. bonds, of which $68 million went for transportation projects.

Declining interest rates in the 1990s, a shortening of the term of most bonds, and a more modest level of bonding resulted in a smaller portion of the state budget going to debt service through 1997. The percentage of debt service expenditures to General Fund expenditures declined from 9.1% in 1985 to 3.7% in 1994. But with the significant increase in bonding for transportation thereafter, the percent of debt to the General Fund began to increase again. In FY1998, debt service amounted to 6.6% of the General Fund. Despite this increase in debt service, there were few critics. By this time, responsible borrowing for major capital projects had proven its worth to most legislators and the general public. Furthermore, the increased borrowing had no negative impact on the state's excellent bond rating.

Figure 10 shows Utah's G.O. debt over the last 10 years, the market value of all taxable property in Utah, and the bonding capacity that is left. As can be seen, Utah in FY 2022 had G.O. bonds amounting to $2.1 billion which was only 26% of the state's bonding capacity. In other words, the state has the current capacity to bond for more than $6.2 billion if it chose to do so. Keeping the state G.O. debt at the levels shown in the table is one of the reasons Utah has such a high bond rating.

From 2001 to 2021, the state issued a total of $8.2 billion in G.O bonds. This is an enormous amount of borrowing that would have been unthinkable to earlier generations of legislators. Yet during these 20 years, the state maintained its AAA bond rating, indicating that such a level of borrowing did not concern rating agencies or lenders. In fact, bonding agencies and publications that evaluate state administrations have consistently given the state high marks for quality management, fiscal responsibility, and long-term planning of capital projects.

The 50 states differ dramatically in their use of debt. In 2020 all states had a total of $437.7 billion in general obligation debt. This is inconsequential compared to the debt of the United States government, which stands at about $29 trillion and is rising rapidly. All states have some debt. Fifteen states held less G.O. debt than Utah. New York and California have by far the largest amount of debt at $139.2 and $152.7 billion respectively, but of course, they rank first and third in state population. Of the states that have debt, Wyoming has the least at $769.7 million. Table 5 shows the G.O. debt by state as of 2022.

Why states vary so much in the use of debt has much to do with the differences in each state's tax base, its constitutional provisions for debt, the need for infrastructure investment, arrangements between the state and its local governments, and public attitudes toward debt. Wyoming has the least G.O. debt, mainly because the state has generally been able to finance much of its public infrastructure from severance taxes and certain trust funds. The state also used revenue bonds tied to the state severance tax to finance much of its infrastructure, especially water development. It is also the state with the smallest population (581,075) and therefore may need less bonding to provide its citizens with the service needed.

Idaho is the other Rocky Mountain state with little G.O. debt. The Gem State has a strict constitutional limit on debt. As a result, Idaho also uses the more expensive revenue bonds. A portion of the state's income tax is dedicated to a permanent building fund managed by the state's Building Authority. In addition, one-third of the return from the state lottery is earmarked for state building construction.

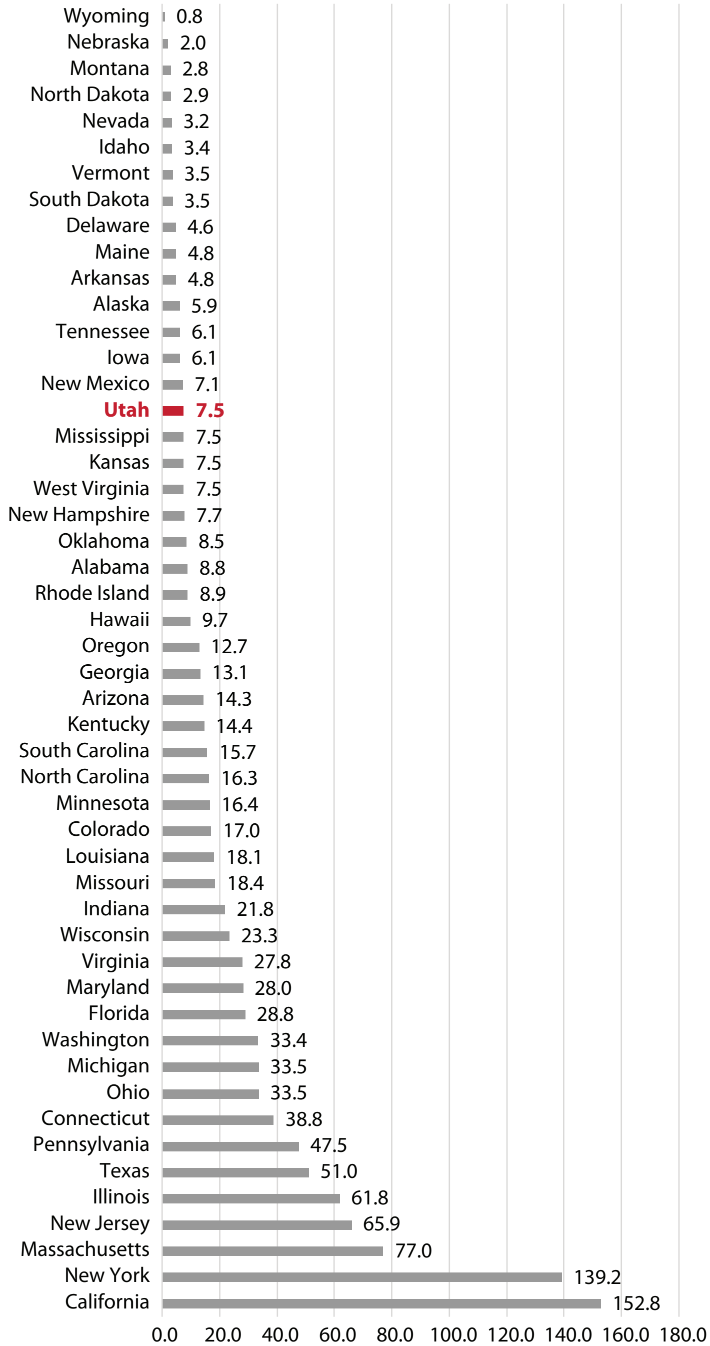
Arizona is another western state with little G.O. debt, mainly because the state constitution prohibits G.O. debt above $350,000. As a result, the state relies on revenue bonds which amount to $13.6 billion. This amount may have been reasonable when the Arizona constitution was approved in 1912, but today it is the equivalent to a prohibition on general debt. Rather than change the constitution, Arizona has chosen to use more

Table 5: General Obligation Debt by State at End of FY, 2022

State	State Debt	Per Capita Debt	Population
Wyoming	$769,721,000	$1,328.26	579,495
Nebraska	$2,014,523,000	$1,013.07	1,988,536
Montana	$2,795,614,000	$2,534.13	1,103,187
North Dakota	$2,885,664,000	$3,605.30	800,394
Nevada	$3,248,814,000	$1,019.90	3,185,426
Idaho	$3,369,178,000	$1,779.42	1,893,410
Vermont	$3,502,960,000	$5,417.97	646,545
South Dakota	$3,527,703,000	$3,914.60	901,165
Delaware	$4,561,576,000	$4,523.80	1,008,350
Maine	$4,750,384,000	$3,469.56	1,369,159
Arkansas	$4,801,939,000	$1,584.46	3,030,646
Alaska	$5,921,713,000	$8,023.75	738,023
Tennessee	$6,127,422,000	$872.38	7,023,788
Iowa	$6,149,694,000	$1,910.33	3,219,171
New Mexico	$7,057,656,000	$3,314.71	2,129,190
Utah	**$7,453,346,000**	**$2,209.60**	**3,373,162**
Mississippi	$7,470,178,000	$2,523.64	2,960,075
Kansas	$7,538,475,000	$2,551.24	2,954,832
West Virginia	$7,547,010,000	$4,235.47	1,781,860
New Hampshire	$7,739,447,000	$5,568.99	1,389,741
Oklahoma	$8,457,322,000	$2,113.83	4,000,953
Alabama	$8,772,871,000	$1,729.26	5,073,187
Rhode Island	$8,932,377,000	$8,073.80	1,106,341
Hawaii	$9,656,278,000	$6,549.89	1,474,265
Oregon	$12,656,643,000	$2,930.80	4,318,492
Georgia	$13,050,862,000	$1,195.49	10,916,760
Arizona	$14,291,349,000	$1,956.81	7,303,398
Kentucky	$14,403,514,000	$3,173.19	4,539,130
South Carolina	$15,744,638,000	$3,017.93	5,217,037
North Carolina	$16,310,177,000	$1,535.77	10,620,168
Minnesota	$16,363,418,000	$2,827.61	5,787,008
Colorado	$16,980,689,000	$2,867.09	5,922,618
Louisiana	$18,092,508,000	$3,863.75	4,682,633
Missouri	$18,419,751,000	$2,976.64	6,188,111
Indiana	$21,842,716,000	$3,190.64	6,845,874
Wisconsin	$23,252,381,000	$3,917.80	5,935,064
Virginia	$27,825,929,000	$3,177.39	8,757,467
Maryland	$28,027,363,000	$4,478.68	6,257,958
Florida	$28,823,847,000	$1,305.10	22,085,563
Washington	$33,427,752,000	$4,230.60	7,901,429
Michigan	$33,463,604,000	$3,307.97	10,116,069
Ohio	$33,493,235,000	$2,825.95	11,852,036
Connecticut	$38,756,156,000	$10,728.90	3,612,314
Pennsylvania	$47,519,575,000	$3,637.79	13,062,764
Texas	$50,963,262,000	$1,701.87	29,945,493
Illinois	$61,821,319,000	$4,826.44	12,808,884
New Jersey	$65,874,095,000	$7,016.53	9,388,414
Massachusetts	$77,043,165,000	$10,810.99	7,126,375
New York	$139,234,923,000	$6,836.68	20,365,879
California	$152,772,292,000	$3,819.78	39,995,077

Source: United States Census Bureau Annual Survey of State Government Finances, Bureau of Economic Analysis

Figure 11: Debt by State in Ranked Order (in Billions of $), 2021



Source: U.S. Census Bureau[19]

expensive revenue debt. Because revenue bonds come with higher interest rates, the state pays a price for such a restrictive constitutional debt limit.

Utah's state debt is lower than the national average. The state's excellent credit record, strong economy, low amortization terms, and modest use of debt have earned it the highest rating with bond rating agencies. Table 2 shows bond ratings for the 50 states from Standard and Poors. Table 5 shows the ratio of outstanding G.O. debt per $1,000 of personal income. When

G.O. debt is looked at on the state and local government level, Utah again has a low ratio of outstanding debt to personal income. Figure 11 Shows debt by state in ranked order.

Revenue bonds

Revenue bonds are another alternative for borrowing. Revenue bonds are paid for by an earmarked revenue source, generally the earnings or income from the public enterprise benefiting from the bond proceeds. A few examples may be helpful. In the early years of the state, revenue bonds were used by the state to finance road building. College fees for a new building on campus, or park fees for a capital development within the park are sometime used. Utah uses revenue bonds to finance low to moderate income housing projects and uses mortgage payments to pay off the bond. Revenue bonds do not affect the legal borrowing capacity of the government because such bonds are not backed by the total taxing capacity of the government issuing the bond.

Historical use of revenue bonds

The Utah Legislature used G.O. bonding only three times prior to 1975. Until recently, revenue bonds were used just as rarely. The first instance of revenue bonding by the State of Utah occurred in 1917 to initiate large-scale road building. Between 1917 and 1921, $7 million in bonds were issued for a period of 20 years to finance these new projects. Motor vehicle registration fees were the designated means of repayment. Since that time, as highway construction and maintenance demands multiplied, various plans have been put forward to finance the state's highway needs through revenue bonds. The usual response by the Legislature has been to reluctantly agree to an increase in the gasoline tax and reject the bonding plan. An exception is the occasional historical use of "tax anticipation bonds" (a form of revenue bond) to move ahead on interstate highway construction. In this case, a revenue bond is sold to provide short-term financing in advance of the availability of federal highway funds. The notes are repaid as the federal funds are made available.

In 1977, revenue bonds began to be used for low income housing programs. The Utah Housing Finance Agency (now the Utah Housing Corporation), created by the Legislature in 1975 as a quasi-public agency, got into the business with its first bond issue in 1977. The Utah Housing Corporation issues bonds for both low- and moderate-income mortgages with the backing or security coming from the repayment of the mortgage loans by individual borrowers. The bond maturity dates vary, but most are 30-year bonds. Acting as an agency of the State of Utah, the UHC can issue revenue bonds and thereby raise capital at a lower cost than private banks and mortgage companies. The savings stem from the fact that the state is an excellent credit risk and the bonds are exempt from state and federal income taxes. These savings are passed along to qualified, usually first-time home-buyers in the form of lower interest rates on home loans.

In 2019, UHC allocated $8.7 million in annual 9% federal tax credits and $1.3 million in annual 4% federal tax credits. In its annual report, UHC wrote,

> *"UHC has invested more than $13.1 billion in affordable home ownership and rental housing. These resources have helped over 94,000 homebuyers achieve the dream of homeownership, and have helped build nearly 28,000 affordable rental units.*
>
> *During fiscal year 2019, UHC helped over 4,200 families purchase a home with its down payment assistance program. The Corporation allocated approximately $11.1 million in low income housing tax credits to fund affordable housing developments that created nearly 1,000 new rental units this past year."*[12]

The state's colleges and universities have also issued revenue bonds for construction of student housing, special event centers, student union buildings, and other purposes. These bonds are secured by related student fees and income. Other purposes for revenue bonds issued by agencies of the State of Utah include public buildings and water development projects.

The Utah Board of Regents first issued revenue bonds in 1979 to raise a pool of money for student loans. The federal government had been in the student loan business since 1965, but was trying to get out of it by the late 1970s. Washington was encouraging states to fill the void. While the student loan program is now administered at the state level, most of the cost is still absorbed by the federal government. The federal government pays the interest on the loans while the students are in school, pays loans off in case of death or default, and provides a guarantee to the loan holder. For the most part though, the bonds are paid for through the repayment of the loans by the students receiving the loans.

The amount of student loan debt in the United States has become a significant problem in the eyes of many. Student loan debt in 2021 reached $1.75 trillion, an amount equal to 7.6% of GDP and 5.8% of the national debt.[13] Forty-three million Americans, approximately 13% of the nation's total population, hold student loan debt. This amounts to about $40,000 per person. Most of this debt occurs by students going to for-profit universities.[14] President Joe Biden has announced that the "Department of Education will provide up to $20,000 in debt cancellation to Pell Grant recipients with loans held by the Department of Education, and up to $10,000 in debt cancellation to non-Pell Grant recipients. Borrowers are eligible for this relief if their individual income is less than $125,000 ($250,000 for married couples)." [13]

Since the early 1980's, the state has built a number of office buildings through the State Building Ownership Authority (SBOA). The Authority is administered by the State Division of Facilities Construction and Management (DFCM) and issues revenue bonds for the construction of buildings, pledging lease payments from state agencies as income to pay off the bond. The real security behind the bonds is the building and the willingness of the Legislature to appropriate money for lease payments on an annually renewable basis. These revenue bonds, issued by the SBOA, are usually 20-year bonds. The longer period is necessary so that the lease revenue will be sufficient to amortize the notes.

Though revenue bonding can also be a useful tool of government, it is seldom the least expensive alternative. In place of a revenue bond, a general obligation bond, pledging the full faith and credit of the borrowing government, will usually secure a lower interest rate. Yet this option is not always available. So when a revenue or income stream can be dedicated to a project, revenue bonding is often the best alternative.

Revenue bonds are now carefully regulated by state and federal governments to limit alleged abuses and reduce the drain on the public treasury from tax-exempt financing. Utah's allotment of these bonds is consumed mostly by low- and moderate-income mortgages, student loans, and small-issue industrial revenue bonds. These bonds serve a valuable purpose to the State of Utah and its citizens.

Current revenue bonds outstanding

According to Utah's Division of Finance, as of 2020, the State of Utah and its official agencies had approximately $2.943 billion outstanding in revenue bonds. Revenue bonds issued by the Board of Regents for student loans ($2.6 billion) account for the largest segment of the total outstanding revenue bond in Utah.

When is debt financing appropriate?

Government, like households, can use debt wisely or unwisely. Most would agree that for households borrowing money for large purchases such as a home or an automobile is generally sound. Borrowing to cover regular ongoing expenses like clothing, food, or recreation is not wise and a sign that a serious reevaluation of household finances is in order. Government borrowing is similar. Government borrowing for the construction of highways, state buildings, and large water projects is generally responsible borrowing. Borrowing to cover ongoing expenses like social services or health care is a sign of serious financial stress.

As already shown and discussed, Utah has bonded mainly for highways, state and college buildings, and other capital projects. It has not borrowed to fund ongoing financial needs such social programs or employee retirement premiums.

Table 6: Outstanding Revenue Bonds FY 2020

Type	Current Principal Outstanding
Recapitalization Revenue Bonds	$19,565,000
State Board of Regents	$2,559,442,663
Utah Charter School Finance Authority	$364,505,000
Total	$2,943,512,663

Source: Utah State Treasurer's Office

Since the Great Recession, interest rates on both G.O. and revenue bonds have been extremely low. In many cases, Utah has been able to take on general obligation bonds at interest rates less than the rate of inflation. This is prudent fiscal policy that can save the state money in the long-term on important projects. In the first century of Utah's statehood, taking on large amounts of debt may have seemed risky. But, when governments embark on massive infrastructure investments, like the Salt Lake City airport, it is more than sensible to finance these multibillion dollar projects through bonds. Table 6 shows Utah's G.O. and revenue bond interest rates over the last 20 years along with rates of inflation.

Debt financing has advantages and disadvantages:

Advantages[14]

- Bonding is best used for capital projects like highways, state and college buildings, reservoirs and parks. These are large projects that have very long lives and bonding allows future beneficiaries to pay for part of the project's costs.
- Bonding allows government to finance large projects over time without having to significantly raise taxes to pay for the projects.
- Since most government bonds are tax free, they carry interest rates below those that could be obtained by private corporations.
- Bonding may make good economic sense in a period of escalating construction costs or even general inflation if the interest paid on the outstanding debt is often less than the increased costs incurred by waiting to finance the project on a "pay-as-you-go" basis and bonding does not increase construction costs.
- Governments can intentionally use debt financing as a budget tool, taking advantage of the business cycle by issuing bonds when rates are low, and paying cash during good times.

Disadvantages

- Due to interest and bond issuance costs, the cost of bonding may be more expensive than paying for the project with current revenue – "pay-as-you-go."
- Poorly managed borrowing can negatively affect the borrowing government's credit rating, making any further bonding more expensive.

- Bonding can often include "pork-barrel" projects necessary to achieve legislative support to pass the bond, but which would not be approved on their own.
- Borrowed money must be paid back, which commits future government revenue to the bond, thus reducing the fiscal flexibility of that government until the debt is paid.
- Bonding to accelerate projects when construction markets are already hot can drive up costs for everyone on all projects.
- Bonding for operations (as opposed to capital projects) can postpone hard decisions, leading to future fiscal difficulties.

A prudent tool of government

Governments should constantly and carefully evaluate current economic conditions and capital facility needs and use their borrowing capacity carefully and wisely. Capital budgeting and prudent investments in public infrastructure are extremely important governmental functions. Over time, neglecting capital investment creates serious problems for future legislatures and governors as capital needs become more serious, even critical. If projects are postponed for too long, government will be forced to play "catch up" and will often pay more for a project that has been delayed for an unnecessarily long time.

From 2001 to 2020, the state issued a total of $8.2 billion in bonds. This is an enormous amount of borrowing that would have been unthinkable to earlier generations of legislators. Yet during these 20 years, the state has maintained its AAA bond rating, indicating that such a level of borrowing coupled with short amortizations is not a concern of lenders. Furthermore, this amount of borrowing has not threatened the bonding capacity of the state. In fact, bonding agencies and publications that evaluate state administrations have consistently given the state high marks for quality management, fiscal responsibility, and long-term planning of capital projects.

With careful planning and consideration, debt in the form of general obligation and revenue bonds can be a useful tool for both state and local governments in providing important public services. Utah's constitutional limit on bonding has shown to be reasonable, even wise. The statutory debt limit is of limited use, however. Utah state government's use of debt financing over the years has been prudent and careful. This has had two major results. First, it has allowed the state to maintain a AAA bond rating which has provided the state the lowest possible interest rates available. Second, it has allowed the state to build needed projects in a relatively timely manner.

Bonding, when done for capital projects, is really a benefits tax. When the Legislature is debating a bond, proponents often spend a substantial amount of time stating that the projects being proposed will not only serve Utahns well but will make the state more attractive to individuals, families, and businesses, and thereby increase economic activity and tax revenues. This argument can be over played. However, it is true that wise investments do make areas more attractive and thereby raise property values and increase tax revenues for the investing government. A current example is the move of the state prison from a heavily commercial and residential southern part of Salt Lake County to the northern part currently being little used. The 680 acres where the prison was previously located will be turned into a mixed-use development including an innovation district led by Utah's universities. Though this development has its critics, once developed, the value of that property will certainly increase and make the area more pleasing and attractive – both visually and economically.

Moving forward, Utah residents should not be too worried about the state's use of bonding. History has shown that the state has been responsible in borrowing funds to take care of large state projects. With such a strong precedent now laid, it is difficult to imagine the state moving down a path of irresponsible borrowing. Governors and legislatures, past and present, have prudently invested in the state through borrowing.

Endnotes

1. https://www.thebalance.com/who-owns-the-u-s-natioinal-debt-3306124)
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3. "The Affordable Care Act," Wikipedia, 2021. Wording to the Wikipedia article, "The increased coverage was due, roughly equally, to an expansion of Medicaid eligibility and to changes to individual insurance markets. Both received new spending, funded through a combination of new taxes and cuts to Medicare provider rates and Medicare Advantage. Several Congressional Budget Office (CBO) reports said that overall these provisions reduced the budget deficit, that repealing ACA would increase the deficit,[8][9] and that the law reduced income inequality by taxing primarily the top 1% to fund roughly $600 in benefits on average to families in the bottom 40% of the income distribution.[10]" Footnotes in the quote are Wikipedia's.
4. Unsustainable Debt: countries with the Highest National Debt Per Person. https:/ceoworld.biz2020/01/14.
5. Econ74/economicshelp.org/blog/774/economics/list-of-national debt.
6. Wikipedia, "United States Debt Ceiling", p. 1
7. Https/usgovernmentspending .com
8. An argument could be made that the War of 1812 when Great Britain invaded Washington D.C. and burned the nation's capital would be the exception.
9. "The Affordable Care Act," Wikipedia, 2021.
10. "Revenue Statistics, Comparative Tables," OECD 12-05-2019.
11. "Debt monetization," Wikipedia, 2022.
12. The three major bond rating agencies are: Standard and Poors, Moody's, and Fitch.
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