

### State Government Debt in Utah: Rapid Growth in Recent Years

Research Report #662, December 2003

#### Lesson Summary

This lesson details the growth in Utah state government debt from 1991 to the present. The report contains a comparison of general obligation (GO) debt and revenue debt incurred by the state. Finally, it provides a framework to determine when it is appropriate to use debt rather than other public financing mechanisms.

#### Related Websites

- Utah Governor's Office of Planning and Budget  
<http://governor.utah.gov/gopb/budget.html>
- Utah State Auditor's Office  
<http://www.sao.state.ut.us/reports/reports.htm>
- Zion's Bank Public Finance- State of Utah's Financial Advisor  
<http://www.utmuni.com/entry.html>

#### Utah Core Curriculum

- U.S. Govt. and Citizenship 6210
- 6210-0302: Explore current issues affecting local governments spending, state versus local control.
- U. S. History II 6250
- 6250-1001: Analyze the economy of contemporary United States
- Economics
- Standard #1: Develop and apply analysis and presentation skills in economics.

*This lesson plan is provided by Utah Foundation to assist in using the accompanying Research Report in high school or middle school classes. Please feel free to copy the Research Report for your students.*

#### Vocabulary

**Abate:** Reduce or cancel (as in eliminating a tax amount due).

**Decelerate:** Slow down.

**Infrastructure:** The stock of public facilities such as roads, sewers, and buildings existing in an area.

**Intervening:** Occurring between two points in time.

**Judicious:** Marked by the exercise of good judgment or common sense in practical matters.

**Leverage:** Investing with borrowed money as a way to obtain greater potential gains.

**Optimal:** The most desirable outcome or position.

**Resurgent:** Rising again with greater strength.

**Statutory:** Created through a state's statutes or laws.

**Untenable:** Not able to be defended or justified.

#### Quick Questions

1. List the four primary methods used by governments to finance projects.

Answer: Pay-as-you-go, save-and-wait, federal or other grants, and debt.

2. What are the five differences between general obligation and revenue bonds, according to Figure 1?

Answer: The source of repayment, investor perception, interest rates, referendum requirement, and constitutional limits on the amount of debt.

3. In which year was general obligation debt per \$1,000 of personal income the lowest during the time period studied?

Answer: 1997

4. According to Figure 6, revenue bonds for which agency made up the largest percentage of total revenue bonds outstanding in 2003? What percentage did this category comprise of the total in 1994?

Answer: Board of Regents, Student Loan Fund. 24.3%

5. Using Figure 7 or Figure 8, list the total debt rankings, nationally, for Utah and its neighboring states of Arizona, Colorado, Idaho, Montana, Nevada, New Mexico and Wyoming.

Answer: Utah- 21<sup>st</sup>, Arizona-49<sup>th</sup>, Colorado-44<sup>th</sup>, Idaho-22<sup>nd</sup>, Montana-10<sup>th</sup>, Nevada-36<sup>th</sup>, New Mexico-15<sup>th</sup>, and Wyoming-17<sup>th</sup>.

6. In addition to Utah, which states have AAA credit ratings from both Moody's and Standard and Poor's?

Answer: Virginia, South Carolina, Missouri, Michigan, Maryland, Georgia, and Delaware.

7. In 2002, Utah's debt service was 2.53% of state government expenditures. If federal funds and dedicated credits were excluded, debt service makes up what percentage of "home grown" funds?

Answer: 3.92 percent

8. Define intergenerational equity.

Answer: Having future generations that will benefit from project, such as road construction, help pay for the cost through paying off some of the debt incurred to finance the project.

## Critical Thinking Activities

1. Research infrastructure projects in your area such as a new school building, road construction, county office space, etc. What is the payment plan for the new infrastructure, i.e. pay-as-you-go, save-and-wait, bonding, or a combination? What is the cost of the project? Using this information, first decide if the project is really needed or if there are other options that might be considered. Second, determine if the proper mix of funding is being used or if there is an alternative funding scenario. Is this project funded by the people who get the most benefit? Be prepared to defend your conclusions.
2. Choose a state (other than Utah) or a large city and find that government's general obligation and revenue bond issuing history. Using the history given on pages four and five of the Utah Foundation report, compare this usage history to Utah's and find the bond ratings for your chosen government entity. What is similar? What is different?

## Quiz Page

### Vocabulary

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Abates	Judicious	Statutory
Decelerate	Leverage	Untenable
Infrastructure	Optimal	
Intervening	Resurgent	

### Quick Questions

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1. List the four primary methods used by governments to finance projects.
2. What are the five differences between general obligation and revenue bonds, according to Figure 1?
3. In which year was general obligation debt per \$1,000 of personal income the lowest during the time period studied?
4. According to Figure 6, revenue bonds for which agency made up the largest percentage of total revenue bonds outstanding in 2003? What percentage did this category comprise of the total in 1994?
5. Using Figure 7 or Figure 8, list the total debt rankings for Utah and its neighboring states of Arizona, Colorado, Idaho, Montana, Nevada, New Mexico and Wyoming.
6. In addition to Utah, which states have AAA credit ratings from both Moody's and Standard and Poor's?
7. In 2002, Utah's debt service was 2.53% of state government expenditures. If federal funds and dedicated credits were excluded, debt service makes up what percentage of "home grown" funds?
8. Define intergenerational equity.