


**Date:** December 4, 2014  
**To:** Legislative Reference Library  
**From:** Jim Schowalter   
Commissioner  
**Subject:** Report to the Legislature - Debt Capacity Forecast

Minnesota Statute 16A.105 requires the Commissioner of Management and Budget in February and November of each year to prepare a debt capacity forecast to be delivered to the governor and legislature.

Attached is the November 2014 debt capacity forecast.

Attachment

cc:	Senator Thomas M. Bakk	Representative Paul Thissen	Representative Lyndon Carlson, Sr.
	Senator David W. Hann	Representative Erin Murphy	Representative Jim Knoblach
	Senator Richard Cohen	Representative Kurt Daudt	Representative Paul Torkelson
	Senator LeRoy A. Stumpf	Representative Alice Hausman	Representative Joyce Peppin

# **Minnesota Management and Budget Debt Capacity Forecast November 2014**

## **Introduction**

Minnesota Statute 16A.105 requires the Commissioner of Minnesota Management and Budget (“MMB”) to prepare a debt capacity forecast to be delivered to the governor and legislature in February and November of each year.

The capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25% or less of total state personal income.
2. Total amount of principal (both issued, and authorized but unissued) for state general obligations, state moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6% of state personal income.
3. 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and/or market conditions.

These guidelines are intended to:

- Be consistent with measures used by the credit rating agencies and foster direct comparisons with the debt burdens of other states;
- Be comprehensive to ensure all kinds of tax-supported debt obligations are recognized; and
- Continue Minnesota’s conservative financial management practices.

## **Statement of Indebtedness**

As of November 30, 2014, the state of Minnesota had \$6,491,240,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as \$1,672,070,000 principal amount of other tax-supported obligations outstanding, for a total of \$8,163,310,000 outstanding as of the date of the forecast. Please see the attached exhibit for more detail about these obligations.

The state has no general obligation short-term notes outstanding.

## Debt Service Costs

The table below presents the details of the actual and forecasted debt service costs for all of the state's tax-supported debt. For the Budget and Economic Forecast, the assumption for future capital budgets is \$800 million in the even numbered legislative sessions and \$220 million in the odd numbered years with respect to various purpose general obligation bonds. For trunk highway bonds, the forecast amounts have been prepared based upon information provided by the Department of Transportation. The column entitled "Other Tax-Supported Bonds" reflects the actual debt service obligations in each fiscal year for the debt identified in the exhibit; it does not reflect the total amount appropriated in each fiscal year for such obligations. The estimate for interest rates used for future bond issues is derived from the IHS Economics ("IHS") data used to develop the November 2014 Budget and Economic Forecast.

### Actual Annual Debt Service Costs (\$ in Thousands)

Fiscal Year	General Obligation Bonds			Other Tax	Total
	Various Purpose	Trunk Highway Fund	Subtotal	Supported Bonds	
2006 actual	\$353,728	\$36,347	\$390,075	\$10,629	\$400,705
2007 actual	\$400,146	\$53,752	\$453,898	\$14,695	\$468,593
2008 actual	\$409,426	\$52,170	\$461,596	\$17,999	\$479,595
2009 actual	\$452,978	\$59,542	\$512,520	\$24,259	\$536,779
2010 actual	\$429,123	\$70,542	\$499,665	\$27,640	\$527,305
2011 actual	\$398,799	\$45,225	\$444,024	\$30,393	\$474,417
2012 actual	\$190,799	\$72,601	\$263,400	\$38,194	\$301,594
2013 actual	\$222,584	\$120,305	\$342,889	\$49,236	\$392,125
2014 actual	\$619,935	\$136,488	\$756,423	\$97,492	\$853,915
2015 forecast	\$623,061	\$154,593	\$777,654	\$147,149	\$924,803
2016 forecast	\$636,290	\$190,239	\$826,529	\$142,084	\$968,612
2017 forecast	\$641,203	\$215,666	\$856,869	\$144,671	\$1,001,541
2018 forecast	\$595,720	\$220,950	\$816,670	\$143,754	\$960,424
2019 forecast	\$626,751	\$218,789	\$845,540	\$142,393	\$987,933
2020 forecast	\$606,926	\$212,297	\$819,223	\$133,122	\$952,346
2021 forecast	\$635,260	\$205,526	\$840,786	\$132,871	\$973,657

*\*Totals may not add due to rounding.*

## Debt Authorized and Unissued

The state has authorized and unissued general obligation bonds for various purposes and trunk highway purposes totaling \$1,626,692,900 as of November 30, 2014. Additional bond authorizations of state appropriation bonds include \$10 million to finance the pay for performance bond program. The legislature has also authorized the sale of an additional \$80 million of state appropriation bonds to

finance the Housing Finance Agency Housing Infrastructure bonding program. None of the debt for these two programs has been issued. The total amount of authorized and unissued tax-supported obligations is \$1,716,692,900. All other currently authorized tax supported bond projects and/or programs have been issued.

**Debt Capacity**

The capital investment guidelines are intended to be a current fiscal year “point in time” calculation that minimizes the number of variables that needed to be addressed in the prior debt capacity calculations. Total state personal income is derived from the IHS data used to develop the November 2014 Budget and Economic Forecast and reflects the state 2015 fiscal year (not the 2014 calendar year).

**Capacity Calculations as of November 2014 Forecast:**

***Guideline #1- Goal 3.25% or less:***

Tax-supported principal outstanding	\$8.163 billion
FY 2015 state personal income estimate – IHS forecast	\$272.308 billion
As a percent of state personal income, not to exceed 3.25%	3.00%
Estimated maximum additional principal capacity for all tax-supported debt	\$686.684 million

***Guideline #2 - Goal 6.00% or less:***

Total principal outstanding (issued, and authorized but unissued)	\$11.631 billion
FY 2015 state personal income estimate – IHS forecast	\$272.308 billion
As a percent of state personal income, not to exceed 6.0%	4.27%
Estimated maximum additional principal capacity for all obligations	\$4.707 billion

***Guideline #3 - Goal no less than 40% of general obligation debt to mature within five years and 70% within ten years:***

Of the State’s general obligation bonds outstanding on June 30, 2014, 40.5 percent were scheduled to mature within five years and 70.9 percent were scheduled to mature with ten years. Furthermore, of the State’s general obligation bonds expected to be outstanding on June 30, 2015, 40.3 percent are scheduled to mature within five years and 71.0 percent are scheduled to mature with ten years.

**Capital Investment Guidelines**  
**Summary of Outstanding Principal as of 11/30/2014**  
**As of November, 2014 Economic Forecast**

<b>Tax-Supported Debt (Guideline #1)</b>	<b>Principal Outstanding</b>	<b>Authorized, Unissued</b>	<b>Total</b>
All State General Obligation Debt	\$ 6,491,240,000	\$ 1,626,692,900	\$ 8,117,932,900
Certificates of Participation (SWIFT/Integrated Tax)	38,960,000	0	38,960,000
BCA Bemidji Lease Revenue Bonds	4,345,000	0	4,345,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	50,735,000	0	50,735,000
DHS Building	60,505,000	0	60,505,000
MHFA Supportive Housing	28,490,000	0	28,490,000
MHFA Housing Infrastructure 2012	28,360,000	0	28,360,000
MHFA Housing Infrastructure 2014	0	80,000,000	80,000,000
U of M:			
TCF Bank Stadium	104,385,000	0	104,385,000
Biosciences Facilities	191,835,000	0	191,835,000
State General Fund Appropriation Refunding Bonds	622,290,000	0	622,290,000
Professional Football Stadium Appropriation Bonds	462,065,000	0	462,065,000
Certificates of Participation - Legislative Office Facility	80,100,000	0	80,100,000
Pay for Performance Appropriation Bonds	<u>0</u>	<u>10,000,000</u>	<u>10,000,000</u>
<b>TOTAL - Tax-Supported Debt</b>	<b>\$ 8,163,310,000</b>	<b>\$ 1,716,692,900</b>	<b>\$ 9,880,002,900</b>

**Other Obligations (Guideline #2)**

Tax-Supported Debt (issued and authorized but unissued)	\$ 9,880,002,900
MHFA Moral Obligation Debt <sup>(1)</sup>	1,199,730,000
MOHE Moral Obligation Debt	519,265,000
Equipment Leases	32,123,695
<b>TOTAL - All Obligations</b>	<b>\$ 11,631,121,595</b>

FY 2015 State Personal Income Estimate - IHS Forecast:	272,307,500,000
State Tax-Supported Debt as a Percent of Personal Income:	3.00%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	\$ 686,683,750
All Obligations as a Percent of Personal Income:	4.27%
Estimated maximum additional principal capacity for all obligations @ 6.0%	\$ 4,707,328,405

<sup>(1)</sup> MHFA has a \$5 billion statutory debt limit. However, several of the MHFA bonding programs are not issued as Moral Obligation debt. The bond programs that are not included because they are not secured by a debt service reserve fund subject to replenishment from Legislative appropriation are the conduit multifamily revenue bonds and bonds issued under Home Ownership Mortgage-backed Exempt Securities and Home Ownership Finance Bonds.