MINNESOTA Management & Budget

Office Memorandum

Date: December 2, 2009

To: Legislative Reference Library
Chief Clerk of the House of Representatives
Secretary of the Senate

From: Tom J. Hanson
Commissioner
TJH

Phone: 651-201-8010

Subject: Report to Legislature - Debt Capacity Report

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

Attached is the November 2009 debt capacity report.

Attachment

cc:
Senator Pogemiller
Senator Senjem
Senator Cohen
Senator Langseth
Representative Anderson Kelliher
Representative Zellers
Representative Solberg
Representative Carlson
Representative Hausman

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Debt Capacity Forecast
November 2009

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

Statement of Indebtedness

The state of Minnesota on November 5, 2009 had $5,033,950,000 of general obligation bonds outstanding. This amount includes both general obligation various purpose bonds and general obligation trunk highway bonds.

The state has no general obligation notes outstanding.

Debt Service Costs

The debt service costs for the state's general obligation bonds are shown below. The amounts shown are the general fund costs by fiscal year and include the amount of debt service paid from the sports and health club tax (which matured on August 1, 2009). In this forecast, the assumption for future capital budgets is $725 million in even numbered legislative sessions and $140 million in odd numbered years.

Year	Actual	Year	Forecast
2006	$353,728,000	2010	$429,097,762
2007	$400,146,000	2011	$525,424,000
2008	$409,426,000	2012	$573,405,000
2009	$452,978,469	2013	$579,446,000
		2014	$591,992,000
		2015	$613,328,000

Debt Authorized and Unissued

The state has authorized and unissued general obligation bonds for various purposes and trunk highway purposes totaling $2,366,962,300 as of November 5, 2009.

Future Debt Capacity

Future general obligation bond debt capacity is forecast through the 2014-15 biennium. To make this estimate, many variables must be forecasted. Following is a discussion of some of the key variables that are important in preparing this forecast.

The state's debt management policy has a guideline that limits the appropriation for debt service from the general fund to pay state general obligation bonds to 3% of non-dedicated general fund revenues.

Minnesota Management and Budget's revenue forecast data is used for estimating revenues in the current biennia and the next two biennia and is increased in future years based upon projected economic growth factors provided by GII. The 3% limit under the guideline is then used to estimate the maximum amount of general fund revenues available for debt service on state general obligation bonds. State general obligation bonds paid from resources in the trunk highway fund are not included in the calculation of the 3% limitation.

It is important to note that the guideline historically has not taken into account other long-term general fund obligations for non-state general obligation bonds, such as real estate lease payments for state buildings, and standing general fund appropriations for debt issued by others, such as the University of Minnesota (for TCF Bank stadium and the biosciences facilities) and the Minnesota Housing Finance Agency. These payments are also a claim against the same non-dedicated general fund revenues and are estimated for the forecast period as shown below:

FY 2010-2011:	$55,208,000
FY 2012-2013:	$69,891,000
FY 2014-2015:	$80,294,000

Other variables that are considered as part of the forecast are interest rates on bonds sold, premiums received on bonds issued, interest rates for investment earnings on balances in the debt service fund and the bond proceeds fund, receipts deposited into the debt service fund from non-general fund sources, cash flow on future capital projects, the dollar amount of bonds to be sold, and the timing of the sale of bonds.

The forecast of future debt capacity also assumes that major capital budgets will be approved in the even-numbered legislative sessions and small emergency capital budgets will be approved in the odd-numbered years. The assumption is that the large capital budgets passed by the legislature in each even-numbered year are the same size in each year.

This forecast assumes future capital budgets are $725 million in even-numbered legislative sessions, which represents the 10-year average of past major capital budgets and $140 million in odd-numbered years. Using the forecast estimate for future capital budgets, the projected appropriation for debt service from the general fund as a percentage of non-dedicated general fund revenues will exceed the 3% guideline during the forecast period for both general obligation bonds and the combination of general obligation bonds and state appropriation bonds, as shown below:

FY 2010-2011	3.41%
FY 2012-2013	3.76%
FY 2014-2015	3.54%

It is estimated that lower state revenues, will lead to debt service payments that exceed the state's 3% guideline. The figures shown above incorporate the $725 million and $140 million bonding assumptions used in preparing the forecast. Even if these new bond levels were not assumed, debt service would exceed 3% of non-dedicated general fund revenues in the 2010-11 and 2012-13 biennia. Consequently, no other estimate of maximum debt capacity has been calculated in this report.