MINNESOTA Management & Budget

Office Memorandum

Date: April 10, 2012

To: Legislative Reference Library

From: Jim Schowalter
Commissioner

Subject: Report to the Legislature - Debt Capacity Report

Minnesota Statute 16A.105 requires the commissioner of Minnesota Management & 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 February 2012 debt capacity report.

Attachment

cc: Senator David Senjem	Representative Kurt Zellers
Senator Thomas Bakk	Representative Matt Dean
Senator Claire Robling	Representative Paul Thissen
	Representative Mary Liz Holberg
	Representative Larry Howes

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Minnesota Management and Budget
Debt Capacity Forecast
February 2012

Introduction

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

On December 22, 2009, Minnesota Management and Budget adopted new Capital Investment Guidelines. 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.

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.

Statement of Indebtedness

As of February 29, 2012, the state of Minnesota had $5,428,115,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as $528,360,000 principal amount of other tax-supported obligations outstanding, for a total of $5,956,475,000 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 forecast, the assumption for future capital budgets is $775 million in the even numbered legislative sessions and $225 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 Global Insight Inc. ("GII") data used to develop the February 2012 revenue forecast.

Actual Annual Debt Service Costs

($ in Thousands)

	General Obligation Bonds				
Fiscal Year	Various Purpose	Trunk Highway Fund	Subtotal	Other Tax Supported Bonds	Total
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 forecast	$190,800	$72,601	$263,401	$38,194	$301,595
2013 forecast	$263,530	$126,213	$389,743	$49,236	$438,979
2014 forecast	$650,285	$157,231	$807,516	$49,240	$856,756
2015 forecast	$680,474	$179,996	$860,470	$49,201	$909,671
2016 forecast	$702,621	$185,313	$887,934	$49,178	$937,112
2017 forecast	$738,256	$185,594	$923,850	$49,166	$973,016

**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 $2,020,419,400 as of February 29, 2012. In addition, the legislature has authorized an additional $55,115,000 of debt to be issued for biosciences facilities by the University of Minnesota. The total amount of authorized and unissued tax-supported obligations is $2,075,534,400.

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 GII data used to develop the February 2012 revenue forecast and reflects the state 2012 fiscal year (not the 2012 calendar year).

Capacity Calculations as of February 2012 Forecast:

Guideline #1:

Tax-supported principal outstanding	$5.956 billion
FY 2012 state personal income estimate – GII forecast	$243.673 billion
As a percent of state personal income	2.44%
Estimated maximum additional principal capacity for all tax-supported debt	$1.963 billion

Guideline #2:

Total principal outstanding (issued, and authorized but unissued)	$9.713 billion
FY 2012 state personal income estimate – GII forecast	$243.673 billion
As a percent of state personal income	3.99%
Estimated maximum additional principal capacity for all obligations	$4.907 billion

Guideline #3:

Of the State's general obligation bonds outstanding on June 30, 2011, 40.0 percent were scheduled to mature within five years and 70.1 percent were scheduled to mature with ten years. Furthermore, prior to the issuance of the Tobacco Settlement Revenue Bonds that was used to refund certain maturities of the state general obligation bonds, the State expected that of the bonds to be outstanding on June 30, 2012, 40.0 percent were scheduled to mature within five years and 70.1 percent were scheduled to mature with ten years. However, with the issuance of the Tobacco Settlement Revenue Bonds, of the State's general obligation bonds expected to be outstanding on June 30, 2012, 35.6 percent are scheduled to mature within five years and 67.9 percent are scheduled to mature with ten years.

Impact of Tobacco Settlement Revenue Bonds on Debt Service/Debt Management Guidelines

The Tobacco Settlement Revenue Bonds do not count toward the state's Debt Management Guidelines as the bonds were issued by the Tobacco Securitization Authority, a body corporate and politic and public instrumentality which has a legal existence independent and separate from the state. As stated above, the bond proceeds from the Tobacco Settlement Revenue Bonds are being used to pay off principal and interest on the state's general obligation bonds in FY 2012-13 which will affect the calculation of Capital Investment Guideline No. 3 which states that 40% of general obligation debt shall be due within five years and 70% within ten years.

Capital Investment Guidelines
Summary of Outstanding Principal as of 2/29/2012
As of February, 2012 Economic Forecast

Tax-Supported Debt (Guideline #1)	**Principal Outstanding**	**Authorized, Unissued**	**Total**
All G.O. Debt	5,428,115,000	2,020,419,400	7,448,534,400
Certificates of Participation (MAPS/Integrated Tax)	66,135,000	0	66,135,000
BCA Bemidji Lease Revenue Bonds	5,230,000	0	5,230,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	64,940,000	0	64,940,000
DHS Building	78,395,000	0	78,395,000
MHFA Supportive Housing	31,980,000	0	31,980,000
U of M:			
TCF Bank Stadium	118,490,000	0	118,490,000
Biosciences Facilities	163,190,000	55,115,000	218,305,000
TOTAL - Tax-Supported Debt	5,956,475,000	2,075,534,400	8,032,009,400

Other Obligations (Guideline #2)			
Tax-Supported Debt (issued and authorized but unissued)			8,032,009,400
MHFA Moral Obligation Debt [1]			1,666,240,000
Equipment Leases			14,850,683
TOTAL - All Obligations			9,713,100,083

FY 2012 State Personal Income Estimate - GII Forecast:	243,672,500,000
State Tax-Supported Debt as a Percent of Personal Income:	2.44%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	1,962,881,250
All Obligations as a Percent of Personal Income:	3.99%
Estimated maximum additional principal capacity for all obligations @ 6.0%	4,907,249,917

[1] MHFA has a total of $5 billion of debt authorized; however, they have gone to a new indenture structure which will not use the moral obligation pledge. Consequently, this authorized but unissued amount is not included here.