




Office Memorandum

Date: February 28, 2014

To: Legislative Reference Library

From: Jim Schowalter 
Commissioner

Subject: Report to the Legislature - Debt Capacity Report

Minnesota Statute 16A.105 requires the Commissioner of 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 February 2014 debt capacity report.

Attachment

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

Minnesota Management and Budget Debt Capacity Forecast February 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.

On December 22, 2009, MMB 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 28, 2014, the state of Minnesota had \$6,251,930,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as \$1,640,500,000 principal amount of other tax-supported obligations outstanding, for a total of \$7,892,430,000 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 \$775 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 Global Insight Inc. ("GII") data used to develop the February 2014 Budget and Economic Forecast.

Actual Annual Debt Service Costs

(\$ in Thousands)

General Obligation Bonds

<u>Fiscal Year</u>	<u>Various Purpose</u>	<u>Trunk Highway Fund</u>	<u>Subtotal</u>	<u>Other Tax Supported Bonds</u>	<u>Total</u>
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 forecast	\$619,935	\$136,488	\$756,423	\$99,490	\$855,913
2015 forecast	\$632,805	\$189,188	\$821,993	\$147,496	\$969,488
2016 forecast	\$621,884	\$215,870	\$837,754	\$138,581	\$976,335
2017 forecast	\$646,410	\$229,301	\$875,711	\$138,586	\$1,014,297
2018 forecast	\$605,068	\$224,570	\$829,638	\$137,712	\$967,350
2019 forecast	\$634,801	\$223,929	\$858,730	\$136,601	\$995,331

**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 \$1,565,751,200 as of February 28, 2014. Additional recent bond authorizations of state appropriation bonds include \$10 million to finance the pay for performance bond program. None of the debt for this program has been issued. The total amount of authorized and unissued tax-supported obligations is \$1,575,751,200. The legislature also authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to finance a Legislative Office Facility. The project and debt authorization are contingent on the pending approvals of legislative committees. When final plans are approved, the debt authorization for this will be included in the total for tax supported debt. 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 GII data used to develop the February 2014 Budget and Economic Forecast and reflects the state 2014 fiscal year (not the 2013 calendar year).

Capacity Calculations as of February 2014 Forecast:

Guideline #1- Goal 3.25% or less:

Tax-supported principal outstanding	\$7.892 billion
FY 2014 state personal income estimate – GII forecast	\$265.370 billion
As a percent of state personal income, not to exceed 3.25%	2.97%
Estimated maximum additional principal capacity for all tax-supported debt	\$732.095 million

Guideline #2 - Goal 6.00% or less:

Total principal outstanding (issued, and authorized but unissued)	\$11.267 billion
FY 2014 state personal income estimate – GII forecast	\$265.370 billion
As a percent of state personal income, not to exceed 6.0%	4.25%
Estimated maximum additional principal capacity for all obligations	\$4.655 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, 2013, 39.4 percent were scheduled to mature within five years and 70.6 percent were scheduled to mature with ten years. Furthermore, of the State’s general obligation bonds expected to be outstanding on June 30, 2014, 40.5 percent are scheduled to mature within five years and 70.9 percent are scheduled to mature with ten years.

Impact of Tobacco Settlement Revenue Bonds on Debt Service/Capital Investment Guidelines

The Tobacco Settlement Revenue Bonds did not count toward any of the state’s Capital Investment Guidelines as the bonds were issued by the Tobacco Securitization Authority (“TSA”), a body corporate and politic and public instrumentality which has a legal existence independent and separate from the state. The bond proceeds from the Tobacco Settlement Revenue Bonds were used to pay off current biennial payments for principal and interest on the state’s general obligation bonds. This transaction resulted in a reduction of principal payments made by the state and thereby reducing the amount applicable to 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. Prior to the issuance of the

Tobacco Settlement Revenue 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, as stated above, with the issuance of the Tobacco Settlement Revenue Bonds, the percentages were 39.4 percent and 70.6 percent, respectively.

Capital Investment Guidelines
Summary of Outstanding Principal as of 2/28/2014
As of February, 2014 Economic Forecast

Tax-Supported Debt (Guideline #1)	Principal Outstanding	Authorized, Unissued	Total
All State General Obligation Debt	\$ 6,251,930,000	\$ 1,565,751,200	\$ 7,817,681,200
Certificates of Participation (SWIFT/Integrated Tax)	45,815,000	0	45,815,000
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	29,680,000	0	29,680,000
MHFA Housing Infrastructure	30,000,000	0	30,000,000
U of M:			
TCF Bank Stadium	109,300,000	0	109,300,000
Biosciences Facilities	191,835,000	0	191,835,000
State General Fund Appropriation Refunding Bonds	656,220,000	0	656,220,000
Professional Football Stadium Appropriation Bonds ⁽¹⁾	462,065,000	0	462,065,000
Pay for Performance Appropriation Bonds	<u>0</u>	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL - Tax-Supported Debt ⁽²⁾	\$ 7,892,430,000	\$ 1,575,751,200	\$ 9,468,181,200

Other Obligations (Guideline #2)

Tax-Supported Debt (issued and authorized but unissued)	\$ 9,468,181,200
MHFA Moral Obligation Debt ⁽³⁾	1,221,025,000
MOHE Moral Obligation Debt	551,360,000
Equipment Leases	26,703,258
TOTAL - All Obligations	\$ 11,267,269,458

FY 2014 State Personal Income Estimate - GII Forecast:	265,370,000,000
State Tax-Supported Debt as a Percent of Personal Income:	2.97%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	\$ 732,095,000

All Obligations as a Percent of Personal Income:	4.25%
Estimated maximum additional principal capacity for all obligations @ 6.0%	\$ 4,654,930,542

⁽¹⁾ The authorized size of the project is not to exceed \$498 million which includes both the State share and Minneapolis share. The size of the bond issues also included financing costs such as the Cost of Issuance, Capitalized Interest and the Underwriter's Discount.

⁽²⁾ The legislature also authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to finance a Legislative Office Facility. The project and debt authorization are contingent on the pending approvals of legislative committees. When final plans are approved, the debt authorization for this will be included in the total for tax supported debt.

⁽³⁾ 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.