

In the opinion of Kutak Rock LLP, Bond Counsel, under existing federal and Minnesota laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. For tax years beginning after December 31, 2022, interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations. For a discussion of tax matters see “TAX MATTERS” herein.

**\$338,300,000****STATE OF MINNESOTA****STATE GENERAL FUND APPROPRIATION REFUNDING BONDS, SERIES 2022A****Dated: Date of delivery****Due: As shown on inside front cover**

THE STATE OF MINNESOTA (THE “STATE”) IS ISSUING \$338,300,000 STATE GENERAL FUND APPROPRIATION REFUNDING BONDS, SERIES 2022A (THE “BONDS”). THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE OF MINNESOTA PURSUANT TO MINNESOTA STATUTES, SECTION 16A.99 (THE “ACT”), AND ACCORDING TO THE TERMS OF AN ORDER OF THE COMMISSIONER OF MANAGEMENT AND BUDGET (THE “ORDER”) FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PUBLIC DEBT OF THE STATE SUBJECT TO CONSTITUTIONAL LIMITATIONS ON INDEBTEDNESS, AND THE FULL FAITH, CREDIT, AND TAXING POWERS OF THE STATE ARE NOT PLEDGED TO THE PAYMENT OF THE BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. THE BONDS SHALL BE CANCELLED AND SHALL NO LONGER BE OUTSTANDING ON THE FIRST DAY OF A FISCAL YEAR FOR WHICH THE LEGISLATURE SHALL NOT HAVE APPROPRIATED AMOUNTS SUFFICIENT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS. **AMOUNTS APPROPRIATED TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS CONSTITUTE A CONTINUING APPROPRIATION THAT DOES NOT REQUIRE ANY FURTHER ACTION BY THE LEGISLATURE; HOWEVER, CONTINUING APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE MINNESOTA LEGISLATURE. STATE APPROPRIATIONS, INCLUDING CONTINUING APPROPRIATIONS, ARE ALSO SUBJECT TO EXECUTIVE UNALLOTMENT, IN WHOLE OR IN PART, UNDER MINNESOTA STATUTES, SECTION 16A.152. (SEE “THE BONDS - NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS” HEREIN.)**

The Bonds will mature on March 1 in the years and amounts as shown in the inside front cover of this Official Statement. The Bonds are not subject to optional redemption. See “THE BONDS - Redemption Provisions” herein.

The Bonds will be available in book-entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. U.S. Bank Trust Company, National Association is the Registrar and Paying Agent (the “Paying Agent”) for the Bonds.

The Bonds are offered by the State subject to the legal opinions of Kutak Rock LLP, Bond Counsel, and of the State Attorney General as to the validity of the Bonds. Delivery will be made on or about Tuesday, October 11, 2022.

The date of this Official Statement is September 27, 2022.

\$338,300,000
STATE OF MINNESOTA
STATE GENERAL FUND APPROPRIATION REFUNDING BONDS, SERIES 2022A

Maturities, Amounts, Interest Rates, Prices or Yields and CUSIPs

| Maturity (March 1) | Amount | Interest Rate | Price or Yield | CUSIP* |
|-----------------------|---------------|------------------|-------------------|------------|
| 2023 | \$ 38,115,000 | 5.000% | 3.030% | 604146 FX3 |
| 2024 | 36,800,000 | 5.000% | 3.130% | 604146 FY1 |
| 2025 | 38,940,000 | 5.000% | 3.160% | 604146 FZ8 |
| 2026 | 41,045,000 | 5.000% | 3.180% | 604146 GA2 |
| 2027 | 44,320,000 | 5.000% | 3.200% | 604146 GB0 |
| 2028 | 47,020,000 | 5.000% | 3.240% | 604146 GC8 |
| 2029 | 49,900,000 | 5.000% | 3.270% | 604146 GD6 |
| 2030 | 42,160,000 | 5.000% | 3.320% | 604146 GE4 |

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

Unless otherwise indicated, information contained in this Official Statement is based upon material provided by the State and available at the date of publication of this Official Statement.

No dealer, broker, salesman or other person has been authorized by the State or Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State or Underwriter. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information. Certain information contained herein has been obtained from sources other than records of the State and is believed to be reliable, but it is not guaranteed. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been any changes in the affairs of the State since the date hereof.

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “possible” and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

SUMMARY STATEMENT

The following information is furnished solely to provide limited introductory information regarding issuance of the \$338,300,000 State General Fund Appropriation Refunding Bonds, Series 2022A (the “Bonds”) issued by the State of Minnesota (the “State”), acting by and through the Commissioner of Management and Budget (“MMB”) and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

| | |
|----------------------------------|---|
| Issuer: | State of Minnesota (the “State”) |
| Authority for Issuance: | The Bonds are issued pursuant to Minnesota Statutes, Section 16A.99 (the “Act”) and the Order of the Commissioner of Management and Budget for the Issuance and Sale of State General Fund Appropriation Refunding Bonds, Series 2022A. |
| Security: | THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO THE ACT AND ACCORDING TO THE TERMS OF THE ORDER FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PUBLIC DEBT OF THE STATE SUBJECT TO CONSTITUTIONAL LIMITATIONS ON INDEBTEDNESS, AND THE FULL FAITH, CREDIT, AND TAXING POWERS OF THE STATE ARE NOT PLEDGED TO THE PAYMENT OF THE BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. |
| Purpose: | The Bonds are being issued for the purpose of (i) refunding \$357,055,000 in outstanding maturities of the State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B, and (ii) financing the payment of the costs associated with the issuance of the Bonds. |
| Principal Amount: | Principal for the Bonds is payable annually on March 1 of the years 2023 through 2030. |
| Interest: | Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date (see below) of the Bonds. The interest for the Bonds is payable semiannually on each March 1 and September 1, commencing March 1, 2023. |
| Dated Date/Delivery Date: | Date of delivery is expected to be October 11, 2022. |

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| Cancellation: | If the State legislature reduces or repeals the Continuing Appropriations (as defined herein) for payment of principal of and interest on the Bonds pursuant to any Act or in the event of an executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152, the Bonds shall be cancelled and shall no longer be outstanding on the first day of the fiscal year for which the Legislature shall not have appropriated amounts sufficient for payment of principal of and interest on the Bonds, or from and after the date of such unallotment, as the case may be. Upon such cancellation, the Bonds no longer shall be outstanding and the State shall not be liable, obligated or in any way responsible for the payment of any principal of or interest on the Bonds coming due in succeeding fiscal years for which funds for such purposes have not been appropriated. The repeal or unallotment of the appropriations and the cancellation of the Bonds shall not constitute a default by the State in respect of the Bonds. |
| Denominations: | The Bonds will be issued in fully registered form in denominations of \$5,000 and integral multiples thereof. |
| Book-Entry Bonds: | The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. |
| Record Date: | The close of business on the 15 th day (whether or not a business day) of the immediately preceding month. |
| Redemption Provisions: | The Bonds are not subject to optional redemption prior to maturity |
| Continuing Disclosure: | See “THE BONDS - CONTINUING DISCLOSURE” and “APPENDIX G – CONTINUING DISCLOSURE UNDERTAKING.” |
| Rating: | S&P Global Ratings assigned a rating of “AA+” to the Bonds. See “RATING” herein. |
| Registrar/Paying Agent: | U.S. Bank Trust Company, National Association |
| Legal Opinions: | The Bonds are approved as to validity by the State Attorney General and Kutak Rock LLP as Bond Counsel. Kutak Rock LLP will provide the Opinion regarding the tax exemption of interest on the Bonds. |
| Additional Information: | Questions regarding this Official Statement should be directed to Jennifer Hassemer, Assistant Commissioner, Minnesota Management and Budget, email: jennifer.hassemer@state.mn.us, phone: (651) 201-8079, or Jessica Cameron Mitchell, PFM Financial Advisors LLC, email: cameronj@pfm.com, phone: 612-371-3742. Questions regarding legal matters should be directed to Gregory R. Dietrich, Kutak Rock LLP, email: Gregory.Dietrich@KutakRock.com, phone: (402) 346-6000 or David Murphy, Kutak Rock LLP, email: david.murphy@kutakrock.com, phone: (612) 334-5003. |

\$338,300,000
STATE OF MINNESOTA
STATE GENERAL FUND APPROPRIATION REFUNDING BONDS, SERIES 2022A

THE BONDS

General

This Official Statement, including the cover page and the Appendices (this “Official Statement”), has been prepared by the State of Minnesota Department of Management and Budget (the “Department” or “MMB”) to furnish information relating to the \$338,300,000 State General Fund Appropriation Refunding Bonds, Series 2022A (the “Bonds”) of the State of Minnesota (the “State”) to be dated the date of issuance, to prospective purchasers and actual purchasers of the Bonds. Prospective and actual purchasers should read this entire Official Statement.

Authorization and Purpose

The Bonds are being issued by the State, acting by and through its Commissioner of Management and Budget (the “Commissioner”), pursuant to an Order of the Commissioner (the “Order”), and Minnesota Statutes, Section 16A.99 (the “Act”), which authorize the State to issue bonds payable from amounts appropriated by the Legislature of the State. The Bonds are being issued for the purpose of (i) refunding the outstanding maturities of the State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B, and (ii) financing the payment of the costs associated with the issuance of the Bonds.

The Bonds in the aggregate principal amount of \$338,300,000 are being issued by the state for the purpose of refunding the outstanding State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B (the “Series 2012B Bonds” or the “Refunded Bonds”). (See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS—Bond Accounts” and “APPENDIX D – Schedule of Bonds Being Refunded.”)

Bond Terms

The Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the inside front cover page of this Official Statement. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds is payable semiannually on each March 1 and September 1 to maturity, commencing March 1, 2023. Interest on the Bonds is payable to the registered owner thereof as of the close of business on the fifteenth day of the month immediately preceding a payment date, whether or not such day is a business day (the “Record Date”). If principal or interest is due on a date on which commercial banks are not open for commercial business, then payment will be made on the first day thereafter when such banks are open for business.

The Bonds are issued in book entry form and in denominations of \$5,000 or multiples thereof of a single interest rate of a single maturity for each series of Bonds. The Bonds will be issued initially registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Accordingly, printed Bonds will not be available to purchasers of the Bonds. For a description of the book entry system pursuant to which the Bonds will be issued see the section hereof entitled “BOOK ENTRY SYSTEM.”

Redemption Provisions

Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

Sources and Uses of Funds

The following table presents the sources and uses of funds related to the Bonds.

Sources and Uses of Funds

Sources

| | |
|-------------------------|-----------------------|
| Par Amount of Bonds | \$ 338,300,000 |
| Bond Premium (Discount) | 22,073,314 |
| Cash | <u>31,446</u> |
| Total Sources | <u>\$ 360,404,760</u> |

Uses

| | |
|--------------------------------|-----------------------|
| Deposit to Escrow Account | \$ 359,301,997 |
| Costs of Issuance ¹ | 594,575 |
| Deposit to Debt Service Fund | <u>508,188</u> |
| Total Uses | <u>\$ 360,404,760</u> |

NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS²

General

Pursuant to the Act, the Bonds are payable from money appropriated by law in any biennium for payment of principal of and interest on the Bonds. Subdivision 8 of the Act provides for continuing annual appropriations (the “Continuing Appropriations”) from the State General Fund to the Commissioner in the amount needed to pay principal of and interest on the Bonds.

The General Fund is comprised of numerous revenue sources, including tax revenues, unrestricted grants, certain fees and charges of State agencies and departments and investment income. (See “APPENDIX B – STATE FINANCES – GENERAL FUND REVENUE SOURCES” and table labeled “STATE OF MINNESOTA GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES”.) The State has not pledged any particular source of revenue as security for the Bonds. Notwithstanding the availability of any revenue source, Continuing Appropriations such as those under the Act, are subject to legislative repeal or unallotment.

The Continuing Appropriations constitute a continuing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, a current Legislature is prohibited by law from acting to bind any future Legislature, and so a continuing appropriation may be reduced or repealed entirely by the Legislature at any time. In addition, appropriations are subject to executive unallotment, in whole or in part. The Minnesota Supreme Court has held that such unallotment power may be used when a balanced budget for the biennium has been enacted and the Commissioner subsequently determines during such biennium that probable receipts for the General

¹ Includes Underwriter’s Discount on the Bonds.

² While the State has adopted the revised Article 9 of the Uniform Commercial Code that generally covers security interests created by government debtors, Minnesota Statutes, Section 475.78 provides that Article 9 does not apply to security interests created by the State (except security interests in equipment and fixtures).

Fund will be less than anticipated. See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks” below.

Other continuing appropriations from the General Fund include those authorized for the Department, the University of Minnesota and the Minnesota Housing Finance Agency, and for State lease payments for equipment and real estate. (See “APPENDIX C – STATE DEBT – Contingent Liabilities.”) These continuing appropriations are distinguishable from State appropriations that require action by the Legislature on an annual or biennial basis. See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks – Reduction or Repeal of Appropriation – Appropriations Other Than Continuing Appropriations” below. Continuing appropriations from the General Fund for payment of principal and interest have not previously been reduced or repealed by the Legislature.

THE BONDS ARE PAYABLE IN EACH FISCAL YEAR ONLY FROM AMOUNTS APPROPRIATED BY THE LEGISLATURE OF THE STATE PURSUANT TO THE ACT AND ACCORDING TO THE TERMS OF THE ORDER FOR THE PAYMENT OF THE BONDS. NO OTHER REVENUES OR ASSETS OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PUBLIC DEBT OF THE STATE SUBJECT TO CONSTITUTIONAL LIMITATIONS ON INDEBTEDNESS, AND THE FULL FAITH, CREDIT, AND TAXING POWERS OF THE STATE ARE NOT PLEDGED TO THE PAYMENT OF THE BONDS OR TO ANY PAYMENT THAT THE STATE AGREES TO MAKE UNDER THE ACT AND THE ORDER. THE BONDS ARE NOT PAYABLE DIRECTLY, IN WHOLE OR IN PART, FROM A TAX OF STATEWIDE APPLICATION ON ANY CLASS OF PROPERTY, INCOME, TRANSACTION, OR PRIVILEGE. *THE BONDS SHALL BE CANCELLED AND SHALL NO LONGER BE OUTSTANDING ON THE EARLIER OF (i) THE FIRST DAY OF A FISCAL YEAR FOR WHICH THE LEGISLATURE SHALL NOT HAVE APPROPRIATED AMOUNTS SUFFICIENT FOR PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS; (ii) THE DATE OF UNALLOTMENT; OR, (iii) THE DATE OF FINAL PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS.* AMOUNTS APPROPRIATED TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS CONSTITUTE A CONTINUING APPROPRIATION THAT DOES NOT REQUIRE ANY FURTHER ACTION BY THE LEGISLATURE; HOWEVER, CONTINUING APPROPRIATIONS MAY BE REDUCED OR REPEALED IN THEIR ENTIRETY BY THE LEGISLATURE. STATE APPROPRIATIONS, INCLUDING CONTINUING APPROPRIATIONS, ARE ALSO SUBJECT TO EXECUTIVE UNALLOTMENT, IN WHOLE OR IN PART, UNDER MINNESOTA STATUTES, SECTION 16A.152. See “NATURE OF OBLIGATION AND SOURCE OF PAYMENT FOR THE BONDS – Certain Risks.”

Bond Account

Series 2022A Bond Account

The Order establishes a “Series 2022A Bond Account” in the State Special Appropriation Bond Proceeds Fund created by the Act, to which are appropriated each year moneys received in the General Fund, as provided by the Act, and from which shall be paid the principal of an interest on the Bonds and all bonds thereafter issued which are made payable therefrom in accordance with law.

Pursuant to the Continuing Appropriations made by the Act, there shall be credited to the Series 2022A Bond Account on or after July 1 in each year, from the General Fund in the State Treasury, an amount sufficient with the balance then on hand in the Series 2022A Bond Account to pay all principal and interest then due and to become due on the next succeeding March 1 and September 1 on all Bonds, provided that such Appropriations shall be subject to (a) reduction or repeal by the Legislature or (b) executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152 or (c) cancellation. The Bonds shall be cancelled and shall no longer be outstanding upon such reduction, repeal unallotment, or cancellation in accordance with the Act and by the Order.

On or before March 1 and September 1, commencing March 1, 2023, and provided that the Continuing Appropriations for the year of payment have not been reduced, repealed or unallotted under Minnesota Statutes, Section 16A.152, and the Bonds have not been cancelled pursuant to the Act and the Order, the Commissioner shall transmit to the Registrar from the Series 2022A Bond Account, moneys sufficient to pay all principal and interest due on the Bonds issued pursuant to the Act and the Order on such date.

Certain Risks

Either (i) a legislative repeal of the Continuing Appropriations for payment of principal of and interest on the Bonds established by the Act or (ii) an executive unallotment, in whole or in part, of the Continuing Appropriations could result in the cancellation of the Bonds without recourse by the Bondholder for any additional payments of principal of or interest on the Bonds and without any obligation by the State to make any such additional payments. See “Cancellation of Bonds Prior to Maturity” below.

The State’s obligation to make payments on the Bonds is not a general or moral obligation of the State; rather the State is obligated to make payments only to the extent moneys are appropriated from time to time for such purpose.

Reduction or Repeal of Appropriation

Continuing Appropriations. The Continuing Appropriations constitute a continuing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, as provided by the Act and otherwise pursuant to Minnesota law, a continuing appropriation may be reduced or repealed entirely by the Legislature. There can be no assurance by the State that the Legislature will not reduce or repeal the Continuing Appropriations, resulting in cancellation of the Bonds as described below.

Appropriations Other Than Continuing Appropriations. Certain State appropriations (other than the Continuing Appropriations) for limited payment obligations of the State are not continuing appropriations and, thus, require action by the Legislature on an annual or biennial basis. In the past, the Legislature has failed to make appropriations as necessary to pay in full debt service on State or other obligations, including in 1980 and 1981, when an appropriation to the Minnesota State Zoological Board (the “Zoo Board”) of net revenues of a zoo ride facility were insufficient to allow the Zoo Board to make payments pursuant to an installment purchase agreement, which payments had been assigned to holders of certificates of participation in such agreement. In 1989, the Legislature declined to appropriate funds to St. Cloud State University as necessary to make certain payments under an energy services agreement, which payments had been assigned to an indenture trustee as security for the payment of principal of and interest on industrial development revenue bonds issued by the City of St. Cloud, Minnesota. On May 25, 2017 the Legislature adjourned the 2017 special legislative session having adopted legislation that included appropriations to the House and Senate for fiscal years 2018 and 2019. On May 30, 2017 the Governor of the State of Minnesota (the “Governor”) line-item vetoed these appropriations, which had included the funds necessary for the Senate to make rental payments under a Lease-Purchase Agreement (the “Lease”), which payments had been assigned to the holders of certificates of participation in such Lease (the “Certificates”). The failure to make such an appropriation represented an event of nonappropriation under the Lease, but the Lease Term was never terminated and the Certificates were not called for extraordinary mandatory redemption. Legislation adopted in the 2018 Regular Legislative Session, and signed into law by the Governor, appropriated funds to the House and Senate for fiscal years 2018 and 2019, thus restoring funding needed to make the rental payments under the Lease. As a result of this appropriation, there was no longer an event of nonappropriation under the Lease and the Lease remains in full force and effect.

As previously stated, the limited payment obligations of the State described in this section were not continuing appropriations and, unlike the Bonds, required affirmative action by the Legislature on an annual or biennial basis for State payments to be made in respect of said obligations.

Unallotment. The Continuing Appropriations are subject to executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152. Article XI, Section 6 of the Minnesota Constitution requires a balanced budget for the State. Pursuant to such requirement, Minnesota law requires the Governor to submit a proposed State budget to the Legislature by the end of January of each odd-numbered year for that year and the ensuing even-numbered year (such years together, the “biennium”). On July 1 of each odd-numbered year, the Commissioner transfers to the Budget Reserve Account within the General Fund (the “Budget Reserve”) any amounts specifically appropriated by law to such Budget Reserve. Pursuant to Minnesota Statutes, Section 16A.152, if the Commissioner determines that probable receipts for the General Fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner, with the approval of the Governor, may use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner, with the approval of the Governor, to “unallot” funds as follows:

- (a) An additional deficit shall, with the approval of the Governor, and after consulting the Legislative Advisory Commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the Commissioner is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.
- (b) If the Commissioner determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the Commissioner shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.
- (c) In reducing allotments, the Commissioner may consider other sources of revenue available to recipients of State appropriations and may apply allotment reductions based on all sources of revenue available.

During and after the legislative sessions, revenues are updated to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, and after consulting with the Legislative Advisory Commission, is required to first, reduce the amount in the Budget Reserve, and second, reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but such requests do not relieve the Commissioner of his obligation to reduce allotments to State agencies.

The executive branch has imposed unallotments in prior fiscal years, but not with respect to the payment of debt service. Over the past twenty years, the unallotment procedure has been used as follows: \$281 million of unallotments in 2003; \$271 million of unallotments in 2008; and \$2.68 billion of unallotments in 2009. The 2009 unallotment was unique in that it resulted from the passage of appropriation bills for the fiscal biennium, but the then-Governor vetoed a tax bill that would have balanced the biennial budget by raising revenues and shifting payments. In litigation challenging the 2009 unallotments, the Minnesota Supreme Court concluded that unallotment could not be used to balance the budget for an entire biennium when balanced spending and revenue had not been agreed upon by the legislature and the Governor. The legislature and Governor subsequently agreed to a balanced budget for the biennium. While appropriations from the General Fund for payment of debt service have not previously been unallotted, there can be no assurance by the State that unallotment of the Continuing Appropriations will not be imposed in any future year, resulting in cancellation of the Bonds as described below.

Cancellation of Bonds Prior to Maturity. If the Legislature reduces or repeals the Continuing Appropriations, or in the event of an executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152, the Bonds shall be cancelled and shall no longer be outstanding on the first day of the fiscal year for which the Legislature shall not have appropriated amounts sufficient for payment of principal of and interest on the Bonds, or from and after the date of such unallotment, as the case may be. Upon such cancellation, the Bonds no longer shall be outstanding, and the State shall not be liable, obligated or in any way responsible for the payment of any principal of or interest on the Bonds coming due in succeeding fiscal years for which funds for such purposes have not been appropriated. The cancellation of the Bonds shall not constitute a default by the State in respect of the Bonds. Although there can be no assurance by the State that the Legislature or the executive branch will not take action resulting in cancellation of the Bonds as described herein, no bonds issued by the State have ever previously been cancelled by reason of any such action.

Other Risks

There can be no assurance that other events outside the control of the Commissioner, such as a temporary State government shutdown, will not affect the ability of the Commissioner to make timely payments of principal of and interest on the Bonds. However, such events (other than reduction, repeal or unallotment of the Continuing Appropriations as described above) would not result in cancellation of the Bonds as described above. (See “APPENDIX B – STATE FINANCES.”)

FUTURE FINANCINGS

The State does not anticipate the issuance of any additional debt within the next six months.

BOOK ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity for each series of the Bonds in the aggregate principal amount thereof and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Direct Participants and Indirect Participants (collectively, the “Participants”) are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is, in turn, to be recorded on the Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any

statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar of the Bonds (“Registrar”) and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the State, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, or its nominee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant’s interest in the Bonds, on DTC’s records, to the Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered Bonds to the Registrar’s DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The above information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the completeness or the accuracy thereof, or as to the absence of material adverse changes in such information subsequent to the date hereof.

The State cannot and does not give any assurances that DTC, or a successor securities depository, or Participants will distribute to the Beneficial Owners of the Bonds: (i) payments of principal of or interest and premium, if any, on the Bonds; (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in the Bonds; or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, or a successor securities depository, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC or the Participants will serve and act in the manner described in this Official Statement.

The State will have no responsibility or obligation to any Participant, or any Beneficial Owner or any other person with respect to: (i) the Bonds; (ii) the accuracy of any records maintained by DTC, or a successor securities depository, or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds; (iii) the payment by DTC, or a successor securities depository, or any Participant of any

amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds; (iv) the delivery by DTC, or a successor securities depository, or any Participant of any notice to any Beneficial Owner which is required or permitted to be given to owners of the Bonds; (v) the selection of which Beneficial Owners will receive payment in the event of any partial redemption of the Bonds; (vi) any consent given or other action taken by DTC, or a successor securities depository as a Bondholder; or, (vii) the performance by DTC, or any successor securities depository, of any other duties as securities depository.

TAX MATTERS

The Bonds

General. In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing federal and Minnesota laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants described below, the interest to be paid on the Bonds is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. For tax years beginning after December 31, 2022, interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend on such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America, and applicable corporations as defined in Section 59(k) of the Code relating to the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

Arbitrage/Use of Proceeds. Failure to comply with certain provisions of the Code, may cause interest on the Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Bonds. These provisions include investment restrictions, required periodic payments of arbitrage profits to the United States, and requirements concerning the timely and proper use of Bond proceeds and the facilities and activities financed or refinanced therewith and certain other matters. The documents authorizing the issuance of the Bonds include provisions which, if complied with by the State, are designed to meet the requirements of the Code. Such documents also include a covenant of the Commissioner to take all legally permissible actions necessary to preserve the tax exemption of interest on the Bonds. However, no provision is made for redemption of the Bonds or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes subject to federal or Minnesota income taxation.

Premium Bonds. The Bonds are being issued at a premium to the principal amount payable at maturity (the "Premium Bonds"). Except in the case of dealers, which are subject to special rules, Bondholders who acquire Premium Bonds must, from time to time, reduce their federal and Minnesota tax bases for the Premium Bonds for purposes of determining gain or loss on the sale, redemption or payment at maturity of such Premium Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire Premium Bonds might recognize taxable gain upon sale of such Premium Bonds, even if such Premium Bonds are sold for an amount equal to or less than their original cost. The amount of premium amortized in any period offsets a corresponding amount of interest for such period. Amortized premium is not deductible for federal or Minnesota income tax purposes. Purchasers of Premium Bonds should consult their own tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling such Premium Bonds.

Collateral Tax Matters. The following tax provisions also may be applicable to the Bonds and interest thereon:

(1) Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and Railroad Retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Bonds, may be subject to taxation under Section 1375 of the Code and corresponding provisions of Minnesota law for an S corporation that has accumulated earnings and profits at the close of the taxable year if more than 25 percent of its gross receipts is passive investment income;

(3) interest on the Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code;

(4) in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Bonds that is received or accrued during the taxable year;

(5) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest expense in the case of individuals, estates and trusts; indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds;

(6) federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Bonds;

(7) in the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Bonds within the meaning of Section 265(b) of the Code; and

(8) receipt of interest on the Bonds may affect taxpayers otherwise entitled to claim the earned income credit under Section 32 of the Code.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership, disposition, or receipt of interest on the Bonds. Prospective purchasers or bondholders should consult their tax advisors with respect to collateral tax consequences and applicable state and local tax rules in states other than Minnesota.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time-to-time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time-to-time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

PROSPECTIVE PURCHASERS OF THE BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE BONDS AS TO THE IMPACT OF THE CODE UPON THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS.

LEGAL OPINION

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Kutak Rock LLP, Bond Counsel, and the State Attorney General. Kutak Rock LLP will offer an opinion as to tax status of interest on the Bonds. The form of legal opinion to be issued by Kutak Rock LLP with respect to the Bonds is set forth in APPENDIX H.

FINANCIAL INFORMATION

General financial information relating to the State is set forth in the Official Statement, Appendices A through F, and is a part of this Official Statement. An overview of State actions taken in response to the public health crisis caused by the strain of coronavirus called COVID-19 and certain known impacts on the State's economy and its financial condition are included in APPENDIX B. Selected statements from the State's most recent audited financial statements are included as APPENDIX F.

The Office of the Legislative Auditor, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report included in APPENDIX F, any procedures on the financial statements addressed in that report. The Office of the Legislative Auditor also has not performed any procedures relating to this offering document.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the State, overtly threatened any litigation against the State seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any manner questioning or affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

While at any given time, including the present, there are numerous civil actions pending against the State, that could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for Fiscal Year Ended June 30, 2021, included as APPENDIX F hereto, and additional actions, if any, discussed below, no pending actions are likely to have a material adverse effect in excess of \$15 million on the State's expenditures or revenues during the Current Biennium.

The following is a discussion of developments regarding the actions described in referenced Note 19 that have occurred and are subsequent to the date of the financial statements included in APPENDIX F hereto, and a description of additional actions which have been initiated against the State since the date of the financial statements included in APPENDIX F and are material for purposes of this Official Statement.

Joseph Walsh, et al. v. State of Minnesota (Minnesota Supreme Court). On June 6, 2022 the Minnesota Supreme Court affirmed the decision of the Minnesota Court of Appeals upholding the dismissal of appellant's claims for defense and indemnification from the State.

Murphy, et al. v. Minnesota Department of Human Services (DHS) et al. (United States District Court, District of Minnesota). The parties reached a settlement in July 2022, and the district court scheduled a final approval hearing for January 4, 2023.

Dakota Drug, Inc. v. Commissioner of Revenue (Minnesota Tax Court). This case involves a wholesale distribution tax assessment against Dakota Drug, a wholesale drug distributor. Under the department’s interpretation of the tax statute, wholesale drug distributors are not allowed to lower their gross revenues by rebates the distributors pay to their customers as part of a rebate program. In the audit, the department disallowed the reduction the taxpayer made to its gross revenues for the rebates it paid to its customers during the audit period 2016 to 2019. Rebate programs are common in the wholesale drug distribution industry and if Dakota Drug prevails in this case other distributors may file refund claims totaling \$42,000,000 in fiscal year 2023, \$10,900,000 in fiscal year 2024, and \$11,400,000 in fiscal year 2025. In February 2023, it is expected the parties will file cross-motions for summary judgment.

South Country Health Alliance et al. v. Minnesota Department of Human Services (DHS) et al. (Ramsey County District Court). Plaintiffs are three county-based purchasing health plans that provide managed care to individuals receiving Medical Assistance or MinnesotaCare. Plaintiffs allege that DHS’s procurements for Medical Assistance and MinnesotaCare contracts violate Minnesota’s county-based purchasing statutes, and Plaintiffs seek to compel DHS to comply with their interpretation of the laws in the present, and future, procurements. While Plaintiffs do not seek monetary relief (other than attorneys’ fees and costs), the injunctive relief Plaintiffs seek could put at risk the federal government’s share of the State’s Medical Assistance program. The federal government’s share was over \$7 billion in FY 2020. The complaint was filed in March 2022, and the parties’ cross-motions for summary judgment are under advisement with the Court.

CONTINUING DISCLOSURE

The Commissioner, in the order authorizing and ordering the issuance of the Bonds, has covenanted and agreed on behalf of the State, for the benefit of the holders of the Bonds from time to time, to comply with the provisions of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5) as currently in effect; and, for this purpose, to provide to the Municipal Securities Rulemaking Board annual financial information of the type included in this Official Statement, including audited financial statements, and notice of the occurrence of certain events which materially affect the terms, payment, security, rating or tax status of the Bonds. The State is the only “obligated person” in respect of the Bonds within the meaning of paragraph (b)(5). A description of the Commissioner’s undertaking is set forth in APPENDIX G.

UNDERWRITER

The Bonds were offered by the State at a competitive sale on September 27, 2022, in accordance with and subject to the Official Notice of Sale appearing in the Preliminary Official Statement dated September 19, 2022. The interest rates shown on the inside cover page of this Official Statement will be the interest rates that resulted from the award of the Bonds at the competitive sale. The initial prices or yields shown on the inside cover page of this Official Statement are based solely on information supplied to MMB by the successful bidder, J.P. Morgan Securities, LLC (the “Underwriter”). Any other information concerning the terms of offering of the Bonds, if any, should be obtained from the Underwriter and not from MMB. The Underwriter purchased the Bonds at a purchase price of \$360,018,738.57, reflecting an underwriter’s discount of \$354,574.93 from the reoffering yields and prices set forth in the inside front cover of this Official Statement.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC (the “Municipal Advisor”) is serving as municipal advisor to the State in connection with the issuance of the Bonds. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Municipal Advisor does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies on the Bonds. The Municipal Advisor is not

obligated to undertake to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

RATING

S&P Global Ratings (“S&P”) (the “Rating Agency”) assigned its “AA+” rating to the Bonds.

A credit rating is not a recommendation to buy, sell or hold securities, and such ratings may be subject to revision or withdrawal at any time. The rating by the Rating Agency of the Bonds reflects only the views of such Rating Agency, and any desired explanation of the significance of such rating and any outlooks or other statements given by such Rating Agency with respect thereto should be obtained from the Rating Agency.

Except as may be required by the Undertaking as defined above under the heading “CONTINUING DISCLOSURE,” the State undertakes no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

There is no assurance that the initial ratings assigned to the Bonds will continue for any given period of time or that any of such ratings will not be revised downward, suspended or withdrawn entirely by the Rating Agency. Any such downward revision, suspension or withdrawal of such rating may have an adverse effect on the availability of a market for or the market price of the Bonds.

AUTHORIZATION OF OFFICIAL STATEMENT

The State has prepared and delivered this Official Statement to the Underwriter of the Bonds and has authorized the Underwriter to use it in connection with the offering and sale of the Bonds to investors.

By: /s/ James D. Schowalter
Commissioner of Management and Budget
State of Minnesota

APPENDIX A

**STATE GOVERNMENT AND FISCAL
ADMINISTRATION**

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APPENDIX A

**STATE GOVERNMENT AND FISCAL
ADMINISTRATION**

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STATE GOVERNMENT AND FISCAL ADMINISTRATION

State Government

The State was formally organized as a territory in 1849 and was admitted to the Union on May 11, 1858, as the 32nd state. Bordered by Canada on the north, Lake Superior and Wisconsin on the east, Iowa on the south, and North and South Dakota on the west, it is the 12th largest and 21st most populous state in the Union.

The State's Constitution organizes State government into three branches: Executive, Legislative and Judicial.

The Executive Branch is headed by the Governor. The Governor, Lieutenant Governor, Attorney General, State Auditor, and Secretary of State are popularly elected to four year terms and together serve on the State's Executive Council (the "Executive Council"). There are 18 departments and over one hundred agencies, boards, councils, and authorities which comprise the Executive Branch. Most departments and agency heads are appointed and serve at the pleasure of the Governor, subject to confirmation by the Senate.

The Legislative Branch is composed of a Senate and a House of Representatives. There are 67 senators who serve four year terms and there are 134 house members that serve two year terms.

The Judicial Branch is headed by a Supreme Court. Three levels of courts function within the Judicial Branch: Supreme Court, Appellate Court, and District Courts.

Fiscal Administration

The Commissioner of the Department of Minnesota Management and Budget ("Management and Budget" or "MMB") is designated by statute as the chief accounting officer, the principal financial officer, and the State controller and is assigned responsibility for the administration of the financial affairs of the State. The Commissioner is also responsible for human resource management, employee insurance and collective bargaining on behalf of the State as an employer. Included in the financial duties of the Commissioner of Management and Budget are:

- Preparation of State biennial budget and capital budget.
- Maintenance of general books of account and administration of the statewide accounting system including a central disbursement system.
- Administration of the State payroll system.
- Sale and issuance of State general obligation bonds, certain revenue bonds and certain State appropriation bonds, general obligation certificates of indebtedness, certificates of participation and equipment lease purchase financings.
- Preparation of periodic and special reports on the financial affairs of the State.
- Operation and control of allotment system (annual agency operating budgets).
- Preparation of revenue, expenditure and cash flow estimates.
- Banking and cash management activities.
- Receiving and accounting for all moneys paid into the State treasury to ensure they are properly disbursed or invested.
- Negotiation and administration of bargaining agreements and compensation plans.
- Development and management of employee, retiree and dependent insurance benefits.

Accounting System

State law requires the Commissioner of Management and Budget to maintain an accounting system that shows at all times, by funds and items, amounts appropriated and estimated revenues therefore; amounts allotted and available for expenditure; amounts of obligations authorized to be incurred; actual receipts, disbursements; balances on hand; and unencumbered balances after deduction of all actual and authorized expenditures.

State law requires the Commissioner of Management and Budget to administer the payroll of all employees of the executive branch of government.

The accounting system is organized on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Funds are established for the purpose of carrying on specific activities or objectives in accordance with legal requirements.

Financial Reporting

State law requires the Commissioner of Management and Budget to prepare a comprehensive financial report for each fiscal year of the State in conformance with generally accepted accounting principles by the December 31 following the end of the fiscal year. These reports are audited by the Legislative Auditor. The Legislative Auditor's opinion and the Fiscal Year 2021 basic financial statements are presented in APPENDIX F.

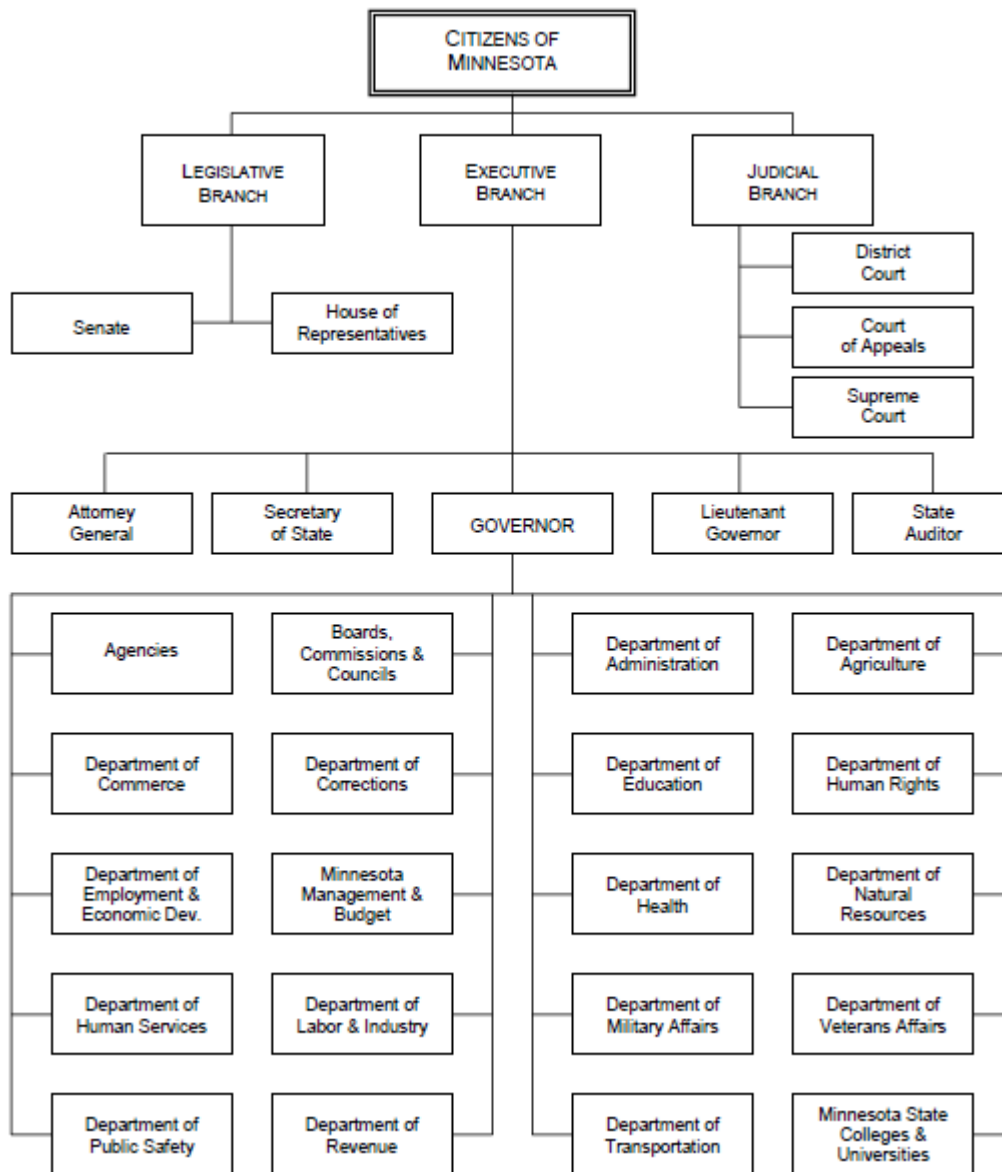
Investments

The State Board of Investment, comprised of four of the State's constitutional officers, is responsible for the formulation of State investment policies and for the purchase and sale of securities. Moneys from various funds are invested according to requirements on types and terms of investments imposed by law on each grouping. The investments are grouped as follows:

- Invested Treasury Cash — temporary investment of a pool of cash, not immediately needed, from funds other than funds dedicated by the State constitution, State law, or by federal law.
- Highway Funds — temporary investment of bond proceeds and receipts not immediately needed.
- Various retirement funds — investment of assets and reserves.
- Trust Funds — investment of assets and reserves.
- Other departmental funds.

See "APPENDIX B – MINNESOTA DEFINED BENEFIT PENSION PLANS", for information on the investment of State sponsored pension plans and retirement funds.

A general organization chart of the State government is shown below. This diagram displays the various categories of the State's service functions and the organization units associated with the delivery of the service activities.



Revenues

The Department of Revenue exercises general supervision over the administration of the taxation and assessment laws of the State. In the exercise of such power, the Department of Revenue promulgates guidelines to ensure that property tax laws are administered uniformly by local governmental units and that the assessments of property are made on an equal basis throughout the State.

The Department of Revenue administers taxes due to the State by collecting, among others, individual income and corporation taxes, sales and use taxes, estate taxes, motor fuel taxes and excise taxes on liquor and tobacco. Additionally, the Department of Revenue is responsible for informing localities when their expenditures exceed the limit set for them by the State Legislature.

Audit Control Procedures

The Office of the Legislative Auditor is the post audit agency of all State departments, agencies, boards and commissions. The Office of the Legislative Auditor conducts the audits of all accounts, records, inventories, vouchers, receipts, funds, securities, and other assets at least once a year, if funds and personnel permit, and more often if deemed necessary or as directed by the Legislature or the Legislative Audit Commission. As an agency of the legislative branch, the Office of the Legislative Auditor is independent of the executive branch and the departments, boards, commissions and other agencies thereof that it is responsible for auditing.

Status of Collective Bargaining and Compensation Plans

The State has a total of 19 bargaining units for State employees, including three faculty bargaining units whose labor contracts are negotiated and maintained by the Minnesota State Colleges and Universities System (“Minnesota State”) and three bargaining units whose labor contracts are negotiated and maintained by the Judicial Branch.

Each odd-numbered year, MMB negotiates the terms and conditions of employment with the seven exclusive representatives for State employees of the Executive Branch covered by one of the 13 non-faculty labor units listed in the table below. MMB also reviews compensation plans for employees not represented by a union. All Executive Branch contracts and compensation plans are subject to review and approval by the Legislature. The following is a summary that shows the number of Executive Branch employees assigned to State bargaining units.

INFORMATION ON EXECUTIVE BRANCH STATE BARGAINING UNITS

| <u>Unit</u> | <u>Employees as of September 2022</u> |
|---|---------------------------------------|
| American Federation of State, County and Municipal Employees (AFSCME) (7 bargaining units) | 15,940 |
| MN Association of Professional Employees (MAPE) | 15,590 |
| Middle Management Association (MMA) | 3,400 |
| MN Government Engineers Council (MGEC) | 1,151 |
| MN Nurses Association (MNA) | 893 |
| MN Law Enforcement Association (MLEA) | 710 |
| State Residential Schools Education Association (SRSEA) | 165 |
| State College Faculty Association (MSCF) | 3,837 |
| State University Interfaculty Organization (IFO) | 3,032 |
| State University Admin and Service Faculty (MSUAASF) | 767 |
| Total Represented Employees | <u>45,485</u> |
| Total State Employment | 51,677 |
| Percent of All Executive Branch Employees Unionized | 88% |

Previous Biennium labor contracts for all Executive Branch bargaining units expired on June 30, 2021. By statute, these contracts remain in effect until subsequent agreements are reached or contracts are cancelled when the right to strike matures. As of the date of this Official Statement, the Legislature has approved the State's agreements with all of the AFSCME bargaining units, MAPE, MMA, MLEA, MNA, SRSEA, IFO and MSUAASF for the Current Biennium. The State and MGEC have reached agreement and are currently awaiting approval of the agreement by the Legislature. The State is currently in contract negotiations with MSCF for employees in the Executive Branch for the Current Biennium.

The Judicial Branch has ratified contracts with the AFSCME bargaining unit representing 867 employees and two Teamsters bargaining units representing 568 employees. The Judicial Branch has approximately 2,520 employees not including law clerks, judges or justices.

Cybersecurity

Computer networks and data transmission and collection are vital to the efficient operation of the State. The State's services and systems may be critical to operations or involve the storage, processing and transmission of sensitive data. Successful breaches, employee malfeasance, or human or technological error could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of the State's or other third party data or systems; theft of sensitive, regulated, or confidential data including personal information; the loss of access to critical data or systems; and service or system disruptions or denials of service. Although the State does not believe that its information technology ("IT") systems are at a materially greater risk of cybersecurity attacks than other similarly-situated governmental entities, any such disruption, access, disclosure or other loss of information could have an adverse effect on the State's operations and financial health.

The Office of Minnesota Information Technology Services ("MNIT") is led by a Chief Information Officer, a Chief Information Security Officer, and Chief Business Technology Officers, who support individual state agency leadership. MNIT is responsible for maintaining the cybersecurity program, and among other duties, serving as a cyber risk advisor to the executive branch and training on cybersecurity practices, and has further implemented multifactor authentication and expanded and enhanced secure teleworking capabilities for the State's workforce in response to the COVID-19 pandemic. MNIT has also standardized the technology vendor and third-party security framework applied to all state agencies to ensure cybersecurity risk assessments are completed to have an effective risk management program in the supply chain of technology delivery. In the 2019 Legislative Sessions, the Legislature appropriated an additional \$5 million dollars per year to MNIT on an ongoing basis from the State's General Fund to support enhancements to the State's cybersecurity capabilities.

To provide advice and recommendations for improving the state of IT for Minnesotans, the Governor established a Blue Ribbon Council on Information Technology ("Council") in February 2019 consisting of executive branch representatives, county IT leaders, union representation, IT experts from the private sector, and state legislators. The Council published two reports in June 2020 and February 2021, which contained recommendations for MNIT and state agencies on ways to improve technology service delivery, project and portfolio management, and cybersecurity risk reduction and mitigation. This model of private-sector expertise collaborating with state agency business leaders and MNIT was cemented as the permanent, statutory advisory body for State government technology services in the 2021 Legislative Session and was renamed the Technology Advisory Council ("TAC"). Cybersecurity remains a prominent focus of the Council, and one of four subcommittees is focused solely on developing additional cybersecurity recommendations, as well as continuing to assess progress against previous recommendations in the cybersecurity arena.

The 2021 Legislature passed legislation creating a new legislative commission on cybersecurity, consisting of 4 senators and 4 representatives. The commission will provide oversight of the State's cybersecurity measures, review State agency cybersecurity policies and practices, and can recommend changes in policy to protect the State from cybersecurity threats. The commission has met several times in the last year, initially focusing on operating procedures and receiving testimony from MNIT and others on cybersecurity issues.

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APPENDIX B

STATE FINANCES

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APPENDIX B
STATE FINANCES
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This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the State’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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STATE FINANCES

FINANCIAL STATEMENTS

The basic financial statements for the State for the Fiscal Year ended June 30, 2021, are included herein as APPENDIX F. These financial statements provide financial information for the State's General Fund, as defined by generally accepted accounting principles, as set forth in the audited financial statements included in APPENDIX F and other major funds; for all other funds, such information is combined into non-major governmental and non-major enterprise funds, which includes the Debt Service Fund. These financial statements have been examined by the Legislative Auditor, independent auditor for the State to the extent indicated in his report included in APPENDIX F. The Legislative Auditor's report and the financial statements, including the Notes, should be read in their entirety. Such financial statements have been included in APPENDIX F in reliance upon the report of the Legislative Auditor. The revenues and expenditures presented consistent with Generally Accepted Accounting Principles for Fiscal Years 2019 through 2021 are summarized on page B-9.

Past Financial Reports

The State's Annual Comprehensive Financial Reports, including information by individual fund for Fiscal Year 2021 and prior years are available at <https://mn.gov/mmb/accounting/reports/>.

FINANCIAL INFORMATION

Budgeting Process

Major operating budget appropriations for each biennium are enacted during the final legislative session of the immediately preceding biennium (i.e. in odd-numbered calendar years). Supplemental appropriations and changes in revenue and expenditure measures are usually adopted during legislative sessions in even-numbered calendar years.

The Minnesota constitution limits the number of days that the Minnesota Legislature (the "Legislature") may meet to a maximum of 120 days during a biennium. The number of days may be split between the two years in a biennium, provided that the Legislature may not meet in a regular session after the first Monday following the third Saturday in May of any year. The regular sessions of the Legislature are scheduled for and occur between January 2 and the first Monday following the third Saturday in May of each year. Special sessions may be called by the Governor.

Revenue and expenditure forecasts are performed in February and November of each calendar year. See "REVENUE AND EXPENDITURE FORECASTING" in this APPENDIX B. Forecasts are performed for the then current biennium and for next succeeding biennium. Based upon the results of these forecasts, the Governor may recommend revenue and expenditure changes that are then recommended to the Legislature. In addition, the Legislature may, also based on these forecasts, approve budget changes.

The February and November forecasts for the biennium during which the forecasts are made are used to evaluate if the State is on track to finish that biennium with a balanced budget, and may be used by the Governor and the Legislature to revise the budget for that biennium.

The November forecast in even-numbered years for the next succeeding biennium becomes the basis for the Governor's budget recommendations for that biennium. All subsequent February and November forecasts for that biennium supplement and revise the original even-numbered year November forecast with more current data, and the Governor may use these forecasts to submit modifications to the budget that was developed from the original even-numbered year November forecast.

General Fund

The General Fund includes all financial resources except those required to be accounted for in another fund.

Revenues, expenditures, transfers and fund balance information in budgetary fund statements may differ from those in the State’s Generally Accepted Accounting Principles (“GAAP”) based Annual Comprehensive Financial Report (“ACFR”) for three primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. In the modified accrual basis used in the ACFR, expenditures are recognized when goods or services are received regardless of the year encumbered. Second, on a budgetary basis, encumbrances are recognized as expenditures in the year encumbered. Third, as a result of implementing GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, several funds are included in the GAAP fund balance, which are not included in the budgetary fund balance, as these funds are not appropriated funds with legislatively enacted budgets. The budgetary fund statements do not represent the State’s official financial report, but rather are prepared as a supplement to the budget documents. See APPENDIX F for the most recent ACFR.

Cash Flow Account

The cash flow account (the “Cash Flow Account”) was established in the General Fund for the purpose of providing sufficient cash balances to cover monthly revenue and expenditure imbalances. The amount and use of funds in the Cash Flow Account is governed by statute.

Budget Reserve Account

A budget reserve account (the “Budget Reserve Account”) was established in the General Fund, as a special account (separate from the Cash Flow Account) that serves as a savings account to be used to offset budget shortfalls during economic downturns. Funds in the Budget Reserve Account may be spent in the event that projected General Fund receipts will be less than forecast, and the amount of resources available for the remainder of the biennium will be less than needed to cover authorized spending. Funds in the Budget Reserve Account may be used, after consultation with the Legislative Advisory Commission, to the extent needed to balance expenditures with revenues. The amount and use of funds from the Budget Reserve Account and its replenishment are governed by statute. Minnesota Statutes Section 16A.152 directs MMB to allocate funds to the Budget Reserve Account as part of the November budget forecast when the balance in the Budget Reserve Account is below the level recommended to adequately manage the volatility of the General Fund tax structure. If the Budget Reserve Accounts level is below the target and there is a positive forecast balance in the current biennium, up to thirty-three percent of the forecast balance is allocated to the Budget Reserve Account until the target level is reached. See “BIENNIUM BUDGETS – 2022 Legislative Session – Current Biennium” in this APPENDIX B.

Stadium General Reserve Account

A stadium general reserve account (the “Stadium Reserve Account”) was established in the General Fund by the 2012 Legislature pursuant to Minnesota Laws 2012, Chapter 299 (“Stadium Legislation”). Available revenues as defined in the Stadium Legislation (including certain excise taxes and gambling revenues) are deposited in the Stadium Reserve Account pursuant to Minnesota Statutes, Section 297E.021, subdivision 2. In the 2013 Legislative Session, as part of the cigarette and tobacco products tax increase, the Legislature provided a one-time deposit of the cigarette floor stocks tax (up to \$26.5 million) into the Stadium Reserve Account. Amounts in the Stadium Reserve Account are appropriated as necessary for application against any shortfall in the amounts deposited to the General Fund under Minnesota Statutes, Section 297A.994. After consultation with the Legislative Commission on Planning and Fiscal Policy, amounts in the Stadium Reserve Account are also available for other uses related to the professional football stadium authorized under Minnesota Statutes Chapter 473J.

Control Procedures

Dollar Control: Expenditures in excess of legislative appropriations are prohibited by law. In order to prevent spending in excess of appropriations, MMB requires State agencies to identify their appropriations and establish them in the State’s accounting system as the limit on spending. The accounting system will reject transactions that exceed these limits. This control procedure is designed to prevent agencies from spending from unauthorized sources of funds.

Allotment and Encumbrance Control: Before money can be disbursed pursuant to an appropriation, it must first be allotted (administratively allocated and approved for expenditure). Prior to each fiscal year, MMB allots the applicable State agency appropriations based on legislatively-enacted budgets. An allotment is a subdivision of an

appropriation into smaller, detailed components used by agencies to budget expenditures by category of expenditure. The accounting system prevents allotments from exceeding appropriations.

Once allotments have been established, but before spending obligations can be incurred, for most purchases agencies must establish encumbrances against their allotments. Encumbrances are the accounting control device agencies use for reserving portions of their allotments for expenditures that will soon be incurred. The encumbrance process helps agencies keep track of their outstanding obligations, and the accounting system prevents agencies from encumbering more funding than has been allotted.

Executive Budget Officer Oversight: MMB assigns an Executive Budget Officer to each State agency for the purposes of approving agency accounting structures, appropriations, and allotments, and for monitoring overall agency revenues and expenditures.

Monthly Reports: MMB maintains a data warehouse which is used to produce reports on revenues and expenditures that agency staff and Executive Budget Officers use to monitor agency spending and receipts.

Balanced Budget

Minnesota's Constitution prohibits borrowing for operating purposes beyond the end of a biennium. Options for dealing with a projected deficit are provided for in statute. Borrowing for cash flow purposes within a biennium is allowed; however, revenues for the entire biennium plus any balances carried forward from the previous biennium must be greater than or equal to expenditures for the entire biennium.

If a forecast shows a shortfall for the General Fund for the then existing biennium, the Commissioner of Management and Budget (the "Commissioner") shall use funds and reduce the Budget Reserve Account as needed to balance revenues with expenditures. If there are not enough funds in the Budget Reserve Account to balance the General Fund in the Current Biennium, the Commissioner, with the consent of the Governor and after consulting with the Legislative Advisory Commission may also reduce outstanding appropriations, commonly referred to as "unallotting."

If a forecast shows a shortfall for the General Fund for the next succeeding biennium, the Governor's budget recommendations must propose revenue and/or expenditure changes in order for the budget for that biennium to be in balance at the end of that biennium.

COVID-19 PANDEMIC AND EXECUTIVE PEACETIME EMERGENCY ORDERS

COVID-19 Impact

The following information provides an overview of State actions taken in response to the public health crisis caused by the strain of coronavirus called COVID-19 and certain known impacts on the State's economy and its financial condition to date. The State's economy, finances and budget outlook have recovered significantly from the height of the COVID-19 Pandemic as further detailed in this section. However, the COVID-19 pandemic is an ongoing situation, the effects of which are being proactively addressed by multiple governmental agencies and programs. At this time, the State cannot predict the ultimate economic and fiscal impacts that the continuation of the pandemic may have on the State. Capitalized terms not defined in this section are defined elsewhere in this Appendix B.

COVID-19 Pandemic. The spread of COVID-19, a respiratory disease caused by a new strain of coronavirus, has had a material impact on global, national and state economies. On March 11, 2020, the World Health Organization elevated COVID-19 from a Public Health Emergency of International Concern to a "pandemic" ("COVID-19 Pandemic"). The President declared a national emergency related to COVID-19 on March 13, 2020 ("National Emergency Declaration"). For the first time in history, the President approved major disaster declarations for all fifty states and the District of Columbia. The State of Minnesota and other state and local governments in the United States declared states of emergency and issued numerous other public health emergency orders. These actions and the effects of the COVID-19 Pandemic significantly disrupted economic activity at all levels, while also significantly increasing public and private health emergency response costs, including within the State.

On March 13, 2020, the Governor declared a Peacetime Emergency in the State of Minnesota, implemented multiple executive orders and took various actions to protect the health of Minnesotans and prevent the spread of

COVID-19 which included closing non-essential businesses, on-site school operations and implementing a stay at home order, among others. The COVID-19 Peacetime Emergency ended on July 1, 2021 in the State of Minnesota, however there can be no assurance that the State will not at some point in the future reinstate the COVID-19 Peacetime Emergency.

During the late Spring and early Summer of 2020, in consultation with public health and occupational safety experts, the State began gradually re-opening sectors of its economy. On May 18, 2020 the Governor lifted the State's stay at home order and implemented an order called "Stay Safe Minnesota" which included a phased approach to reopening the economy. In January 2021, the State launched a Community Vaccination Program offering free COVID-19 vaccines at locations statewide.

Unemployment Levels. Following the onset of the pandemic and related shutdown measures unemployment levels in the State spiked to 11.3% in May 2020. With the reopening of the economy and the widespread availability of COVID-19 vaccines in the State, unemployment levels have significantly rebounded with unemployment levels declining to 2.0% as of May 2022, which was below the national rate of 3.6%.

Minnesota Economic and Budget Outlook. Prior to the COVID-19 Pandemic Minnesota had a high demand for labor and low unemployment, with the result that job growth had slowed to below the U.S. rate amid a limited supply of workers. The COVID-19 Pandemic, the restrictions applied to slow its spread, and the U.S. and global economic contractions negatively impacted Minnesota's economy.

In May of 2020, early in the pandemic at a time of much uncertainty regarding the path and impact of the pandemic, MMB released a May Interim Budget update to update certain revenue and expense items in its February 2020 Forecast to reflect the impact of the COVID-19 Pandemic and shut-down measures. Minnesota's budget and economic outlook deteriorated significantly in the May Interim Budget, which reflected a deficit of \$2.343 billion as of the end of the 2020 Legislative Sessions for the Previous Biennium, a change of almost \$4 billion compared to the February 2020 Forecast.

In November 2020, MMB released its November 2020 Forecast with an improved outlook and a forecasted budgetary balance of \$636 million for the Previous Biennium and a \$1.273 billion deficit for the Current Biennium. The State's forecast has improved materially since this time with MMB's most recent February 2022 Forecast, reflecting a \$9.253 billion budgetary balance for the Current Biennium. As of the end of the 2022 Legislative Session, there is a projected ending balance of \$7.049 billion for the Current Biennium and projected General Fund reserves of \$3.333 billion. See "BIENNIUM BUDGETS" in this APPENDIX B for additional information.

Federal Support. The State has received financial support from the Federal government under five enacted laws which have provided significant relief and support in response to the COVID-19 Pandemic. Under the Family First Coronavirus Response Act, the Federal Medical Assistance Percentage ("FMAP") was increased 6.2 percentage points.. The increased FMAP has resulted in an additional \$190 million in federal support each quarter and is expected to continue through September 30, 2022. In preparing its Current Biennium Budget and subsequently adjusted by the February 2022 Forecast, the State conservatively assumed the enhanced FMAP through June 30, 2022. The State also was allocated \$2.187 billion of Coronavirus Relief Fund ("CRF") monies under the CARES Act for costs incurred in connection with responding to the COVID-19 Pandemic. Of this amount, \$317 million was allocated directly to Hennepin and Ramsey counties while the remaining \$1.870 billion was deposited into the State treasury. To date, the State has programmed and expended all CRF monies for statewide eligible costs. As part of the American Rescue Plan Act ("ARPA") the State was allocated \$2.833 billion from the state fiscal recovery fund, an estimated \$3.189 billion in program specific funds, and an additional \$2.132 billion in funds distributed to local governments. To date, the State has programmed the entire \$2.833 billion in state fiscal recovery funds. See "BIENNIUM BUDGETS - COVID-19 Pandemic Federal Funding – Sources and Uses" in this APPENDIX B for additional information.

Cash and Liquidity. The State is well-positioned with a Statutory General Fund Cash Balance of \$18.943 billion as of June 30, 2022, not including cash receipts received from federal stimulus funds. See "CASH FLOW INFORMATION" in this APPENDIX B for additional information.

Conclusion. The State's economy, finances and budget outlook have recovered significantly from the height of the COVID-19 Pandemic. However, the extent to which the COVID-19 Pandemic impacts the State's ongoing operations and its financial condition will depend on future developments, which are uncertain and cannot be fully predicted with

confidence at this time, including the duration of the pandemic, emergence of new variants, and future actions to contain the COVID-19 Pandemic or treat its impact, among others. The information in this Official Statement reflects current estimates and projections, which consider the impact of this pandemic to the extent practicable. There can be no assurances that the outbreak will not further materially adversely affect the financial condition of the State.

Climate Change and Resiliency

Minnesota is susceptible to significant seasonal weather shifts during the course of a calendar year, including weather events such as flooding, tornadoes, blizzards, and drought. Future changes to the climate in Minnesota may produce ecological, environmental, and economic impacts on the State. Climate change as a result of emissions of greenhouse gases may also produce ecological, environmental, and economic impacts on the State and additional federal and State regulations to fight climate change.

On December 2, 2019, Governor Walz signed Executive Order 19-37 to establish the Climate Change Subcabinet, comprised of state agency and department leadership, and the Governor’s Advisory Council on Climate Change, a citizen board appointed to advise the Subcabinet, to provide guidance to the State in the pursuit of collaborative action to combat climate change. This multi-agency collaboration has produced a website, Our Minnesota Climate, that synthesizes local impacts of climate change, various State actions focused on climate change, and community solutions. The website is not incorporated in this Official Statement by reference.

As part of Minnesota’s Climate Action Framework, the state is working with local, tribal, and regional governments to assess climate vulnerability and build resiliency. Specifically, the state is providing information resources and technical expertise for infrastructure and vulnerability assessments, adaptation planning, and engineering design.

In July 2021, the Minnesota Pollution Control Agency adopted the Clean Cars Minnesota rule, which will apply the Low Emission Vehicle Standard and Zero Emission Standard to new cars sold in Minnesota as early as model year 2025 vehicles. The rule requires automobile manufacturers to deliver more zero emission vehicles and lower polluting vehicles to Minnesota. Manufacturers can receive early action credits for the zero emission vehicles they sell in Minnesota starting in calendar year 2021. In the first 10 years of implementation, the Clean Cars Minnesota rule is expected to reduce greenhouse gas emissions by 8.4 million tons. The Clean Cars Minnesota rule is based on standards adopted by the State of California. In August 2022, the State of California altered its standards by adopting a plan to require all new cars sold by 2035, including SUVs, pickups and vans, to be what they describe as zero-emission vehicles. This new California standard begins in model year 2026. Prior to the start of model year 2026, Minnesota officials will have to either adopt the new California standard or revert to federal emission standards.

REVENUE AND EXPENDITURE FORECASTING

General

The State’s biennial budget appropriation process relies on revenue and expenditure forecasting as the basis for establishing aggregate revenue and expenditure levels. Revenue forecasting for the State is conducted within MMB by the Economic Analysis Unit. Expenditure forecasts for the State are prepared by MMB based on current annual budgets and on current cash expenditure estimates provided by State agencies responsible for significant expenditure items.

In addition to the forecasts prepared for the Legislature before the commencement of each new biennium, forecasts are updated periodically through the biennium. Based on each revenue and expenditure reforecast, MMB prepares a new cash flow analysis for the biennium.

Forecasting Risks

Risks are inherent in the revenue and expenditure forecasts. Assumptions about U.S. economic activity and federal tax and expenditure policy underlie these forecasts. In the forecast it is assumed that existing federal tax law and current federal budget authority and mandates will remain in place. Reductions in federal spending programs may affect State spending. Finally, even if economic and federal tax assumptions are correct, revenue forecasts are still subject to other variables and some normal level of statistical deviations.

Current Forecast Methods and Assumptions

The baseline U.S. economic forecast which the State Economist uses in preparing the State revenue and expenditure forecast is provided by IHS Markit (“IHS” formerly IHS Global Insight, Inc.) of Lexington, Massachusetts. IHS furnishes a monthly forecast of U.S. economic growth and individual incomes across all segments of the national economy.

The IHS national economic forecasts are reviewed by Minnesota’s Council of Economic Advisors (the “Council”), a group of macro-economists from the private sector and academia. The Council provides an independent check on the IHS forecast. If the Council determines that the IHS forecast is significantly more optimistic than the current consensus, the Commissioner may base the State forecast on a less optimistic scenario of national economic growth.

Forecasts of individual income tax receipts are based on IHS forecasts of national production, employment, and corresponding wage and salary earnings, by industrial sector. The IHS forecasts are then entered into a model of Minnesota’s economy developed and maintained by MMB. State forecasts of employment by major industry sector as well as wage and aggregate earnings are obtained from this model. Non-wage income, itemized deductions and other adjustments to income are in general forecast using national data allocated to Minnesota. The forecasts of income, deductions and adjustments are input to a micro-simulation of the State’s individual income tax liability. Calendar year liabilities are converted into fiscal year income tax revenues, with regard given to the timing of withholding tax receipts, quarterly estimated payments, refunds and final payments.

Capital gains realizations have become an increasingly volatile and important share of Minnesota’s income tax base. Minnesota capital gains are forecast using an econometric model which relates the increase in taxable capital gains to the underlying growth in household wealth and to changes in inflation and in the real growth rate of the economy. To account for taxpayer response to anticipated changes in federal tax rates on capital gains, federal tax variables are also included. The model is designed to allow capital gains realizations to move gradually toward an equilibrium rate of realizations instead of adjusting instantaneously to a shock in model variables.

Corporate income tax receipts are forecast using IHS forecast of major variables affecting pre-tax corporate profits. The volatility of corporate profits and the various loss carry-forward and carry-back provisions make this the most difficult revenue source to forecast.

Sales tax receipts are estimated on the basis of a forecast of the sales tax base. The historical base is constructed largely on the basis of national data for items that would be subject to tax if sold in Minnesota. This data is then allocated to Minnesota on the basis of Minnesota’s share of national income and employment to arrive at a Minnesota specific base. By means of a regression equation, the base is calibrated to historical collections. Using national forecasts of sales of taxable items and allocating them to Minnesota on the basis of forecasts on Minnesota’s share of national income and employment the base is extended into the future. Using information from the aforementioned regression equation the forecast collections are derived from the forecast of the base.

Numerous other revenue sources are forecast, some by MMB and others by the agencies responsible for their collection. These sources account for less than 20 percent of General Fund revenues. As a group, the revenues in this category do not present as large a forecasting risk to the General Fund as do the major taxes. Most are relatively stable and less sensitive to the business cycle than the major tax types. Moreover, many are forecast by agencies with specific knowledge about the magnitude and timing of revenues.

The State’s most recent Budget and Economic Forecast was prepared in February 2022. It was informed by the IHS’ February 2022 baseline forecast, the scenario that IHS considered the most likely at the time the forecast was made. See “BIENNIUM BUDGETS – February 2022 Forecast – Current Biennium” in this APPENDIX B for additional information. The forecast growth rates for real and nominal Gross Domestic Product (“GDP”) are shown below. In their February 2022 outlook, IHS estimated that U.S. real GDP grew 5.7 percent in 2021, a 0.2 percentage point increase from their November 2021 baseline forecast. In February, IHS expected GDP growth to decelerate to

3.7 percent in 2022, down from 4.3 percent in their November forecast. They forecast real GDP growth of 2.7 and 2.6 percent, respectively, in 2023 and 2024.

**IHS FEBRUARY 2022
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST⁽¹⁾
(Chained Rates of Growth)**

| | Calendar Year 2020 Actual % | Calendar Year 2021 Actual % | Calendar Year 2022 Forecast % | Calendar Year 2023 Forecast % | Calendar Year 2024 Forecast % |
|--------------------------|--|--|--|--|--|
| Real GDP Growth Rate | -3.4 | 5.7 | 3.7 | 2.7 | 2.6 |
| GDP Deflator (Inflation) | 1.3 | 4.2 | 4.6 | 2.5 | 2.4 |
| Nominal GDP Growth Rate | -2.2 | 10.0 | 8.6 | 5.2 | 5.1 |

⁽¹⁾ Totals may not foot due to rounding.

A report is published with each forecast and is available at <https://mn.gov/mmb/forecast/>, including the State’s most recent February 2022 forecast. See “FINANCIAL INFORMATION” in this APPENDIX B. The November 2022 IHS Baseline will be used as the baseline for the next revenue and expenditure forecast.

July Revenue and Economic Update

Minnesota’s net General Fund receipts for FY 2022 are now estimated to total \$30.329 billion, \$2.927 billion (10.7 percent) more than projected in the February 2022 Forecast. Net receipts from all major taxes exceeded the forecast. State revenues in the final quarter of FY 2022 were \$2.260 billion (29.5 percent) more than forecast in February.

Net individual income tax receipts are estimated to end the year \$2.389 billion (16.5 percent) more than forecast. Gross income tax receipts were \$1.801 billion above the forecast, and refunds were \$588 million less than expected. Declarations exceeded the forecast by \$1.061 billion, and miscellaneous payments, consisting mostly of final payments, exceeded the forecast by \$254 million. The State estimates that about \$1.181 billion of the net income tax variance (\$921 million from declarations and \$261 million from miscellaneous payments) reflects higher-than-forecast tax year 2021 income tax liability.

Gross partnership and S Corporation tax payments for FY 2022 were \$439 million more than forecast, and refunds for these entities were \$36 million above the forecast, generating a net variance of \$404 million. Pass-Through Entities (“PTE”s) are a subset of partnerships and S Corporations. The State estimates that about \$1.359 billion of the PTE payments received in FY 2022 remains to be claimed as credits on individual income tax returns. As tax year 2021 individual extension returns are filed and return processing continues, the remaining PTE credits will reduce income tax liability for individuals with PTE income. The State expects this to result in refunds and transfers to estimated tax in excess of the forecast for the first six months of FY 2023. In prior State revenue reports this year, the State estimated the share of the individual income tax variance arising from the PTE timing shift. These estimates assumed that PTE credits would result in equivalent income tax refunds. However, recent reports from processed returns indicate that many taxpayers with PTE credits are receiving smaller refunds than the size of their credit, because in the absence of the credit they would have had a balance due. This makes it difficult for the State to know what share of the remaining estimated \$1.359 billion in PTE credits are yet to be paid out in refunds. The State expects to be able to determine final combined PTE and individual income tax liability for tax year 2021 in late January 2023, when return processing is complete. See “GENERAL FUND REVENUE SOURCES” in this APPENDIX B for a discussion of the enacted PTE tax in the 2021 Legislative Sessions.

Income tax withholding receipts exceeded the forecast by \$47 million, and estimated income tax payments were about \$139 million more than expected. These amounts reflect calendar year 2022 economic activity.

Net general sales tax receipts are estimated to end FY 2022 \$88 million (1.3 percent) above the forecast. Gross sales tax payments were \$53 million above the forecast, and refunds were \$35 million lower than expected.

Net corporate receipts were \$437 million (18.4 percent) more than forecast. Gross corporate tax payments were \$423 million above the forecast, and refunds were \$14 million lower than expected. Other net revenues were \$13 million (0.3 percent) more than expected.

All FY 2022 results are preliminary and subject to change. The State's fiscal year that ended June 30, 2022, will officially close on August 20, 2022. As of June 30, total FY 2022 revenue was \$30.426 billion. Estimated accruals and pre-close adjustments subtract about \$97 million on net. Non-tax revenues that will be received or recognized between the end of the fiscal year and the close add an estimated \$68 million. Income, corporate, and sales tax refunds attributable to FY 2022 and expected to be paid out before the close subtract \$165 million. A complete reporting of FY 2022 revenues will be part of the October 2022 Revenue and Economic Update.

HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ended June 30, 2019 through 2021, on an accrual basis. The revenues and expenditures shown include all revenues and expenditures for that fiscal year, including revenue received and expenditures made after June 30 of such fiscal year which are properly allocable to such fiscal years. The schedules of revenues and expenditures are presented for comparison purposes only and are not intended to reflect any increases or decreases in fund balance. Beginning balances or deficits are not included.

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STATE OF MINNESOTA
GENERAL FUND COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(THOUSANDS OF DOLLARS)
UNAUDITED

| | Fiscal Year Ended June 30 ⁽¹⁾ | | |
|---|--|----------------------|----------------------|
| | 2019 | 2020 | 2021 |
| NET REVENUES: | | | |
| Individual Income Taxes ⁽²⁾ | \$12,674,858 | \$ 12,329,724 | \$ 14,369,219 |
| Corporation Income Taxes ⁽²⁾ | 1,613,373 | 1,620,684 | 2,404,057 |
| Sales Taxes ⁽³⁾ | 5,775,278 | 5,797,172 | 6,150,751 |
| Property Taxes..... | 811,117 | 772,876 | 789,888 |
| Motor Vehicle Taxes..... | 323,059 | 324,150 | 392,255 |
| Other Taxes ⁽⁴⁾ | 2,817,669 | 2,765,354 | 3,074,525 |
| Tobacco Settlement ⁽⁵⁾ | 162,765 | 152,282 | 254,190 |
| Federal Revenues..... | 12,788 | 52,753 | 51,409 |
| Licenses and Fees | 234,462 | 245,113 | 260,722 |
| Departmental Services..... | 242,310 | 185,483 | 215,104 |
| Investment/Interest Income..... | 243,163 | 206,495 | 413,345 |
| All Other Revenues..... | 479,461 | 414,783 | 481,261 |
| | <u>\$25,390,303</u> | <u>\$24,866,869</u> | <u>\$28,856,726</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Agricultural, Environmental and Energy Resources ⁽⁶⁾ | \$ 280,074 | \$ 357,436 | \$ 360,345 |
| Economic and Workforce Development | 237,288 | 261,482 | 241,243 |
| General Education ⁽⁷⁾ | 9,678,641 | 9,895,517 | 10,019,769 |
| General Government ⁽⁸⁾ | 865,390 | 885,550 | 1,041,012 |
| Health and Human Services ⁽⁹⁾ | 8,029,374 | 8,134,332 | 8,198,224 |
| Higher Education ⁽¹⁰⁾ | 942,218 | 976,077 | 974,767 |
| Intergovernmental Aid ⁽¹¹⁾ | 1,867,151 | 1,780,498 | 1,957,585 |
| Public Safety and Corrections ⁽¹²⁾ | 725,507 | 774,862 | 854,501 |
| Transportation..... | 542,645 | 500,078 | 536,619 |
| Total Current Expenditures | <u>\$23,168,288</u> | <u>\$23,565,832</u> | <u>\$24,184,065</u> |
| Capital Outlay | 115,086 | 88,158 | 67,393 |
| Debt Service | 30,673 | 42,722 | 33,425 |
| TOTAL EXPENDITURES | <u>\$23,314,047</u> | <u>\$23,696,712</u> | <u>\$24,284,883</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>\$ 2,076,256</u> | <u>\$ 1,170,157</u> | <u>\$ 4,571,843</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Bond Issuance | \$ 3,875 | \$ 7,594 | \$ - |
| Bond Issuance Premium | 625 | 1,906 | - |
| Transfers-In | 265,088 | 206,109 | 274,195 |
| Transfers-Out | (1,536,801) | (1,516,631) | (1,582,685) |
| NET OTHER FINANCING SOURCES (USES) | <u>\$(1,267,213)</u> | <u>\$(1,301,022)</u> | <u>\$(1,308,490)</u> |
| NET CHANGE IN FUND BALANCES | <u>\$ 809,043</u> | <u>\$ (130,865)</u> | <u>\$ 3,263,353</u> |

- (1) For Fiscal Years 2019, 2020, and 2021, the schedule of revenues and expenditures includes all financial activity for the Fiscal Year, including revenue and expenditure accruals at June 30.
- (2) During Fiscal Year 2021, Income Taxes revenue increased due to the increase in higher wage earners' taxable income including capital gains and significantly higher corporate profits.
- (3) During Fiscal Year 2021, Sales Taxes revenue increased due to the increase in disposable cash as a result of the increase in wages and the additional federal unemployment benefits resulting in increased consumer spending.
- (4) During Fiscal Year 2021, Other Taxes revenue increased as a result from an increase in lawful gambling, mortgage, and deed transfer taxes as well as an increase in hospital surcharge taxes as a result of patients receiving healthcare services after the slowdown in the prior year due to the pandemic.
- (5) During Fiscal Year 2021, Tobacco Settlement revenue increased as a result of the court settlement on past unpaid tobacco settlements.
- (6) During Fiscal Year 2020, Agricultural, Environmental and Energy Resources spending increased due to an increase in the General Fund share of the grants to Minnesota Comprehensive Health Association for the premium security program due to a decline in the amount reimbursed by the federal government in the Federal Fund.
- (7) During Fiscal Year 2021, General Education function spending increased due to additional grants to school districts for family nutritional support and a two percent per pupil increase, which was partially offset by a decrease in the number of pupils. During Fiscal Year 2020, General Education function spending increased due to a two percent per pupil increase and an increase in the number of pupils.
- (8) During Fiscal Year 2021, General Government spending increased due to grants to counties for support to small businesses to help offset the impact of COVID-19.
- (9) During Fiscal Year 2021, Health and Human Services function spending increased due to an increase in caseloads in the state welfare program for low income families with children. During Fiscal Year 2020, Health and Human Services function spending increased due to the impacts of COVID-19.
- (10) During Fiscal Year 2020, Higher Education function spending increased due to slight increases in operating grants to the University of Minnesota and the Office of Higher Education.
- (11) During Fiscal Year 2021, Intergovernmental Aid spending increased as a result of an increase in grants to local governments. During fiscal year 2020, Intergovernmental Aid spending decreased due to a reduction in grants to local governments.
- (12) During Fiscal Year 2021, Public Safety and Corrections spending increased as a result of the planning and response to the potential civil unrest from a high profile trial and related protests.

BIENNIUM BUDGETS

The biennium that began on July 1, 2019, and ended on June 30, 2021, is referred to herein as the “Previous Biennium.” The biennium that began on July 1, 2021, and will end on June 30, 2023, is referred to herein as the “Current Biennium.” The biennium that will begin on July 1, 2023, and will end on June 30, 2025, is referred to herein as the “Next Biennium.” An individual fiscal year is referred to herein as “FY” or “Fiscal Year.”

Forecast and projected revenues and expenditures are based on the legal requirements contained in Minnesota statutes and session laws as of the time of the forecast and projections.

February 2021 Forecast – Current Biennium

The November 2020 forecast provided the first official forecast for the Current Biennium, as well as revenue and expenditure planning estimates for the Next Biennium. The November 2020 forecast, adjusted for law changes, projected a negative balance of \$883 million for the Current Biennium. Revisions in the February 2021 Forecast resulted in a positive projected balance of \$1.672 billion for the Current Biennium.

Revenues: Total General Fund revenues for the Current Biennium were forecast to be \$50.937 billion, \$3.292 billion (7.1 percent) more than the forecast at the time for the Previous Biennium. Total tax revenues for the Current Biennium were forecast to be \$49.110 billion, a \$3.771 billion increase (8.1 percent) over estimates for the Previous Biennium. Growth in the individual income and sales taxes accounted for almost all of the biennial tax revenue change.

Expenditures: Expenditures were projected to grow at a rate of 6.0 percent into the Current Biennium, an increase of \$2.871 billion over the Previous Biennium. The two largest budget areas, E-12 education and Health and Human Services (“HHS”), along with property tax aids and credits and debt service more than accounted for the growth due to formula and cost growth that is authorized to increase in law. Partially offsetting the overall biennial growth was reduced projected spending in other areas of state government due to the expiration of one-time spending where base appropriations for current services did not continue into the Current Biennium.

Reserves: Law enacted in 2019 reduced the General Fund Budget Reserve Account by \$491 million on the first day of the Current Biennium. The balance as of the February 2021 Forecast for the Current Biennium was \$1.886 billion. The \$350 million Cash Flow Account balance was not projected to change from the Previous Biennium in the February 2021 Forecast. The Stadium Reserve Account balance was expected to be \$201 million by the end of FY 2023, an increase of \$120 million from the Previous Biennium due to growth in lawful gambling tax receipts and expected contributions from city of Minneapolis sales tax receipts beginning in FY 2021.

2021 Legislative Sessions – Current Biennium

During the 2021 Legislative Sessions, the Legislature enacted significant revenue and expenditure measures in the General Fund for the Current Biennium. The 2021 Legislative Sessions concluded June 30, 2021, with a balanced budget for the Current Biennium. The enacted budget decreased net General Fund revenues, including transfers, by \$29 million and appropriated an additional \$1.706 billion over the February 2021 Forecast base spending amount. The budget also relies on an additional \$100 million in reserve balances compared to the February 2021 Forecast. After accounting for all revenue and expenditure changes enacted for the Current Biennium, the General Fund balance at the end of the Current Biennium is estimated to be \$127 million.

Revenues in Enacted Budget: The approved budget reflects changes in General Fund revenues from the February 2021 Forecast for the Current Biennium. Net General Fund Revenues total \$50.907 billion, \$29 million lower than February 2021 Forecast estimates.

Tax Revenues: The Legislature enacted significant tax changes in the 2021 Legislative Sessions. In total, net tax revenues were projected to be \$746 million lower than forecast. Tax law changes included conformity to federal tax law for individual income tax, pass-through income, and corporate income tax primarily related to the COVID-19 Pandemic. Additionally, several tax credits were continued and newly established. No major tax law changes resulted in an increase in tax revenues.

Non-Tax and Transfers: Legislation in the 2021 Legislative Sessions also had a significant impact on non-tax revenues and transfers from other funds. Enacted non-tax revenue and transfer changes totaled \$716 million over February 2021 Forecast estimates. The largest portion of this change is a \$633 million transfer from the American Rescue Plan Act (“ARPA”) state fiscal stabilization fund to the General Fund. Guidance from the federal government

allows use of the ARPA funds for the provision of general government services up to an amount of calculated revenue loss due to the COVID-19 pandemic and resulting economic impacts. In addition to transfers from the ARPA state fiscal stabilization fund, the enacted budget also includes \$119 million in reallocations of prior year General Fund expenditures to remaining funds in the Coronavirus Relief Fund. The reallocations impact both the Previous Biennium (\$60 million) and the Current Biennium (\$59 million). The reallocations impact prior year activity in the General Fund and results in increased resources in the Current Biennium.

Expenditures in Enacted Budget: After completion of the enacted budget, General Fund expenditures in the Current Biennium are expected to total \$52.363 billion, \$1.706 billion higher than forecast estimates. Appropriations in State and local programs were made across all areas of the State budget. Significant appropriation increases were provided to E-12 education, higher education, health and human services, public safety and judiciary, environment and agriculture, and economic development.

E-12 education expenditures are estimated to be \$20.987 billion, \$558 million higher than previously forecast. E-12 education spending represents 40 percent of total General Fund expenditures. The Legislature enacted major appropriations in education finance including a 2.45 percent increase in the basic education formula in each year (\$463 million), \$46 million to maintain funding for pre-kindergarten programs and \$20 million for programs to increase the number of teachers of color.

Higher education spending was projected to be \$3.512 billion, \$106 million higher than February's projections. An additional \$39 million was provided to the University of Minnesota, and an additional \$57 million was provided to Minnesota State. An increase of \$5 million was also made for the Office of Higher Education to fund its state grant program.

Property tax aid and credit spending was projected to be \$4.204 billion in the Current Biennium, \$40 million higher than the February 2021 Forecast. The majority of the increase is a onetime increase to local governments to offset expected property tax revenue loss in the current year.

An increase of \$254 million to Health and Human Services ("HHS") set the Current Biennium spending in the area at \$16.504 billion. HHS is projected to account for 32 percent of total General Fund spending. The HHS bill includes additional spending on long term care services. While that spending is supported through a temporary increase in federal funds in FY 2022, those initiatives along with additional spending on state operated services, dental reforms, telehealth expansion, and public health initiatives increase overall spending in HHS.

Public safety and Judiciary spending was estimated to total \$2.638 billion in the Current Biennium, an increase of \$100 million over February 2021 Forecast. Significant increases in appropriations to the court operations, public defenders, the department of public safety and the department of corrections accounted for the majority of the change.

Spending in all other areas of the budget totaled \$4.518 billion, \$648 million higher than February projections. Accounting for the change was \$227 million higher spending in General Fund transportation spending for transit operations and one-time cash resources for local roads, \$163 million in state government operations, \$218 million in economic development, agriculture and housing, and \$38 million in environment. These increases were partially offset by a \$21 million decrease in projected debt service spending because a bonding bill with additional debt authorizations did not pass thus resulting in budget savings because the February forecast assumed new authorizations.

Reserves in Enacted Budget: The reserve amounts for the Current Biennium were \$100 million lower than levels projected in the February 2021 Forecast. The \$100 million reduction in the Budget Reserve Account balance is due to the HHS appropriated budget not adopting savings proposals recommended by a blue ribbon commission established in law in 2019. The 2019 law included a reduction to the Budget Reserve Account if savings proposals were not adopted. The General Fund reserves in the enacted budget were \$2.377 billion: \$1.786 billion in the Budget Reserve Account, \$350 million in the Cash Flow Account and \$201 million in the Stadium Reserve Account. The enacted budget also included a statutory change that will result in the Budget Reserve Account balance growing up to \$2.377 billion with any future forecast surplus projected in the General Fund.

November 2021 Forecast – Current Biennium

With the November 2021 Forecast, the Minnesota budget and economic outlook was significantly improved in all years of the budget planning horizon. A General Fund budget surplus of \$7.746 billion was projected for the Current Biennium.

Revenues: Total General Fund revenues for the Current Biennium were forecast to be \$56.037 billion, \$5.130 billion (10.1 percent) more than end 2021 Legislative Sessions estimates. Total tax revenue for the biennium was forecast to be \$53.440 billion, \$5.077 billion (10.5 percent) above the prior estimate. The forecasts for all major tax types were higher than at end of session.

Expenditures: Total State General Fund expenditures for the Current Biennium were projected to be \$51.999 billion, \$364 million (0.7 percent) lower than previously expected. \$326 million of the change was in E-12 education, where spending projections were lower due to updated pupil counts. Other budget areas also saw lower spending including health and human services, debt service, and property tax aids and credits. These decreases were partially offset by an increase in spending in all other areas of \$136 million (1.4 percent) primarily due to the carryforward of unspent appropriations in FY 2021.

Reserves: Minnesota Statute 16A.152 directs MMB to allocate funds to the Budget Reserve Account when there is a positive November forecast balance and other provisions such as repaying accounting shifts and funds borrowed from other sources are fulfilled. With the November 2021 Forecast, allocations to the Budget Reserve Account were triggered and \$870 million was allocated to the Budget Reserve Account compared to end of 2021 Legislative Sessions estimates. After these allocations, the balance of the Budget Reserve Account was \$2.656 billion.

February 2022 Forecast – Current Biennium

With the February 2022 Forecast revisions to revenue and expenditure estimates, the forecast improved \$1.507 billion for the Current Biennium leading to a revised projected General Fund surplus of \$9.253 billion.

Revenues: Total General Fund revenues for the Current Biennium were forecast to be \$57.289 billion, \$1.252 billion (2.2 percent) more than the November 2021 Forecast. Total tax revenues for the Current Biennium were forecast to be \$54.594 billion, \$1.154 billion (2.2 percent) above the prior estimate. The forecasts for all major tax types were higher than in November. Minnesota individual income tax receipts were forecast to be \$498 million (1.7 percent) more than the November 2021 Forecast. Of that change, 70 percent was expected to occur in FY 2022. The increase was due to a higher forecast growth in wage and non-wage income, which offset a lower estimate of base year tax liability. Net general sales tax revenue in the Current Biennium was forecast to be \$212 million (1.6 percent) more than the prior estimate. A combination of a \$210 million increase in forecast gross sales tax receipts and a \$2 million reduction in expected refunds contributed to the change. The corporate franchise tax was forecast to generate \$4.427 billion in the Current Biennium, \$324 million (7.9 percent) more than the prior estimate. The forecast change was due to both a higher base of corporate receipts and higher expected growth in corporate profits.

Expenditures: Spending estimates for the Current Biennium were slightly lower than the November 2021 Forecast. Expenditures in the Current Biennium were expected to be \$51.729 billion, a reduction of \$270 million (0.5 percent). The decrease was primarily driven by changes in E-12 education spending due to lower than projected pupil counts and decreases in special education transportation costs. Health and human services spending was also lower than in the November 2021 Forecast. An additional quarter of enhanced federal match, due to an extension in the federal public health emergency, was projected to decrease Medical Assistance expenditures.

Reserves: The General Fund budget reserve balance remained at \$2.656 billion. In November 2021, the budget reserve was increased according to statutorily required allocations so that it met the statutory target of 4.8 percent of General Fund non-dedicated revenue for the Current Biennium. The stadium reserve balance was expected to be \$327 million by the end of the Current Biennium and was estimated to grow to \$581 million by the end of FY 2025. The stadium reserve balance was expected to grow each year due to growth in the gambling tax revenue forecast. The cash flow account remained at the November 2021 Forecast level, \$350 million.

2022 Legislative Session – Current Biennium

During the 2022 Legislative Session significant changes to General Fund revenue and expenditures were enacted for the Current Biennium and Next Biennium. The enacted changes decreased expected General Fund revenue, including transfers in, \$634 million in the Current Biennium. Appropriation changes from bills enacted in the 2022 Legislative Session totaled \$1.570 billion. There were no changes made to General Fund reserves. Compared to the February 2022 Forecast, a net total of \$2.204 billion in changes were enacted and the expected ending balance of the General Fund for the Current Biennium was reduced to \$7.049 billion.

Revenues: There were no changes to tax revenues enacted in the 2022 Legislative Session. Revenue in the Current Biennium is expected to total \$56.655 billion, \$634 million lower than the February 2022 Forecast largely due to the cancellation of a transfer-in to the General Fund previously enacted in the 2021 Legislative Sessions. In the 2021 Legislative Sessions law was enacted that scheduled \$633 million in FY 2023 and \$550 million in FY 2024 to be transferred from the ARPA State Fiscal Recovery Fund to the General Fund. As part of legislation that replenished the State’s unemployment insurance trust fund, these transfers into the General Fund were repealed, resulting in \$633 million lower expected revenue in the General Fund in the Current Biennium compared to the February 2022 Forecast. Remaining revenue changes included small fee changes enacted in a commerce bill.

Expenditures: Expenditures in the Current Biennium are expected to total \$53.299 billion, \$1.570 billion higher than February 2022 Forecast estimates. There were two major bills that accounted for the majority of the expenditure changes enacted this session. The first major legislation extended the Minnesota Premium Security Plan, commonly known as Reinsurance, with funding for an additional three years through plan year 2025. The Reinsurance program reimburses health insurers for Minnesotans in the individual market with costly medical claims in a single year. The General Fund impact of the extension is \$313 million in Fiscal Year 2023, and \$403 million in the Next Biennium. In the Current Biennium, the primary cost is a General Fund transfer to the special revenue fund of \$300 million to finance the State’s share of reinsurance payments for plan years 2023 and 2024. The reinsurance extension also impacted the Health Care Access Fund and leveraged \$233 million in federal pass-through funding over the course of the extension from a state innovation waiver. See “HEALTH CARE ACCESS FUND” in this APPENDIX B.

The second major legislation impacting appropriations for the Current Biennium was a bill that allocated state and federal resources to replenish the unemployment insurance trust fund, allocated funds for direct payments to pandemic frontline workers and appropriated funds for ongoing COVID-19 response needs. In order to reverse planned unemployment insurance assessment increases on employers, \$406 million was appropriated from the General Fund and \$2.324 billion was appropriated from the ARPA state fiscal recovery fund for replenishment of the State unemployment insurance trust fund. In addition, the bill appropriated \$512 million for direct payments to Minnesotans that performed direct COVID-19 response work during the pandemic and \$190 million for ongoing COVID-19 response needs. Other smaller enacted spending included appropriations to address mental health needs, broadband development, and military and veteran operations and services.

American Rescue Plan Act – State Fiscal Recovery Fund

As part of the ARPA the State was allocated \$2.833 billion from the state fiscal recovery fund, an estimated \$3.189 billion in program specific funds, and an additional \$2.132 billion in funds distributed to local governments. Legislation was enacted in the 2021 Legislative Sessions allocating the majority of the flexible \$2.833 billion state fiscal recovery fund. The allocation included \$633 million in FY 2023 and \$550 million in FY 2024 in transfers to the state General Fund to cover revenue loss related to the COVID-19 Pandemic, \$425 million allocated to a flexible COVID-19 response account, \$75 million allocated to schools for summer learning and \$1.15 billion set aside for future legislative appropriation. In the 2022 Legislative Session, law was enacted repealing the transfers of \$633 million in FY 2023 and \$550 million in FY 2024 and those amounts, in addition to the \$1.15 billion in remaining funds, were allocated to replenish the state unemployment insurance trust fund. This \$2.3 billion, in addition to \$406 million from the General Fund, allowed the State to reverse planned unemployment insurance assessment increases on employers. After these allocations, the remaining unallocated balance of the state fiscal recovery fund is \$0.

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**CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF REVENUE AND EXPENDITURES
END OF 2022 LEGISLATIVE SESSION
(\$'s in Thousands)⁽¹⁾**

| | Enacted FY 2022 | Enacted FY 2023 | Biennial Total FY 2022-23 |
|--|--------------------|--------------------|------------------------------|
| <u>Actual & Estimated Resources</u> | | | |
| Balance Forward From Prior Year | 7,025,957 | 8,683,123 | 7,025,957 |
| Current Resources: | | | |
| Tax Revenues | 26,552,098 | 28,042,318 | 54,594,416 |
| Non-Tax Revenues | 850,481 | 775,491 | 1,625,972 |
| Subtotal - Non-Dedicated Revenue | 27,402,579 | 28,817,809 | 56,220,388 |
| Dedicated Revenue | 5 | 5 | 10 |
| Transfers In | 176,896 | 149,185 | 326,081 |
| Prior Year Adjustments | 71,378 | 37,103 | 108,481 |
| Subtotal - Other Revenue | 248,279 | 186,293 | 434,572 |
| Budget Changes - Taxes | 0 | 0 | 0 |
| Budget Changes - Non-Taxes | 0 | -633,877 | -633,877 |
| Subtotal-Current Resources | 27,650,858 | 29,004,102 | 56,654,960 |
| Total Resources Available | 34,676,815 | 37,687,225 | 63,680,917 |
| <u>Actual & Estimated Spending</u> | | | |
| E-12 Education | 10,077,280 | 10,425,655 | 20,502,935 |
| Higher Education | 1,756,101 | 1,775,617 | 3,531,718 |
| Property Tax Aids & Credits | 2,575,125 | 2,078,518 | 4,653,643 |
| Health & Human Services | 7,039,452 | 9,298,015 | 16,337,467 |
| Public Safety & Judiciary | 1,353,431 | 1,327,497 | 2,680,928 |
| Transportation | 327,502 | 149,722 | 477,224 |
| Environment | 207,950 | 195,477 | 403,427 |
| Economic Development, Energy, Ag and Housing | 960,957 | 331,787 | 1,292,744 |
| State Government & Veterans | 921,986 | 967,726 | 1,889,712 |
| Debt Service | 592,426 | 590,741 | 1,183,167 |
| Capital Projects & Grants | 186,482 | 179,665 | 366,147 |
| Estimated Cancellations | -5,000 | -15,000 | -20,000 |
| Total Expenditures & Transfers | 25,993,692 | 27,305,420 | 53,299,112 |
| Balance Before Reserves | 8,683,123 | 10,381,805 | 10,381,805 |
| Cash Flow Account | 350,000 | 350,000 | 350,000 |
| Budget Reserve | 2,655,745 | 2,655,745 | 2,655,745 |
| Stadium Reserve | 212,600 | 326,761 | 326,761 |
| Budgetary Balance | 5,464,778 | 7,049,299 | 7,049,299 |

⁽¹⁾ Totals may not foot due to rounding.

The following table sets forth by source the forecasted amounts of non-dedicated revenues allocable to the General Fund for the Current Biennium, presented on a budgetary basis.

**CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF NONDEDICATED REVENUES
END OF 2022 LEGISLATIVE SESSION
(\$'s in Thousands)⁽¹⁾**

| (\$ in Thousands) | Fiscal Year 2022 | Fiscal Year 2023 | Current Biennium |
|---|---------------------|---------------------|---------------------|
| Non-Dedicated Revenues | | | |
| Individual Income Tax | 14,477,173 | 15,697,125 | 30,174,298 |
| Corporate Income Tax | 2,375,832 | 2,051,145 | 4,426,977 |
| Sales Tax | 6,602,798 | 7,219,596 | 13,822,394 |
| Statewide Property Tax | 771,915 | 764,133 | 1,536,048 |
| Estate Tax | 210,600 | 215,400 | 426,000 |
| Liquor, Wine & Beer Tax | 104,550 | 107,700 | 212,250 |
| Cigarette & Tobacco Products Tax | 598,240 | 600,330 | 1,198,570 |
| Taconite Occupation Tax | 56,900 | 27,800 | 84,700 |
| Mortgage Registry Tax | 215,957 | 180,954 | 396,911 |
| Deed Transfer Tax | 200,936 | 201,538 | 402,474 |
| Insurance Gross Earn & Fire Marshall | 449,173 | 459,711 | 908,884 |
| Controlled Substance Tax | 5 | 5 | 10 |
| Other Gross Earnings | 50 | 50 | 100 |
| Lawful Gambling Taxes | 164,750 | 173,050 | 337,800 |
| Medical Assistance Surcharges | 330,772 | 348,984 | 679,756 |
| Other Tax Refunds | (7,553) | (5,203) | (12,756) |
| Investment Income | 30,000 | 30,000 | 60,000 |
| Lottery Revenue | 72,986 | 71,934 | 144,920 |
| Tobacco Settlements | 175,112 | 168,289 | 343,401 |
| Departmental Earnings | 218,082 | 212,989 | 431,071 |
| DHS MSOP Collections | 15,000 | 14,800 | 29,800 |
| DHS SOS Collections | 85,950 | 89,850 | 175,800 |
| Fines & Surcharges | 76,655 | 75,357 | 152,012 |
| All Other Non-Dedicated Revenue | 176,696 | 112,272 | 288,968 |
| Transfer and Adjustments | 248,279 | 186,293 | 434,572 |
| Total Net Non-Dedicated Revenues | 27,650,858 | 29,004,102 | 56,654,960 |

⁽¹⁾ Totals may not foot due to rounding.

HISTORICAL AND PROJECTED REVENUE AND EXPENDITURE GROWTH

The following tables display historical and projected General Fund revenue and expenditure growth by year for the General Fund for the Previous Biennium and the Current Biennium. Information is provided by major revenue and expenditure categories based on end of 2022 Legislative Session.

HISTORICAL AND PROJECTED REVENUE GROWTH GENERAL FUND END OF 2022 LEGISLATIVE SESSION (\$'s in Millions)⁽¹⁾

| | Actual FY 2018 | Actual FY 2019 | Actual FY 2020 | Actual FY 2021 | Enacted FY 2022 | Enacted FY 2023 | Planning FY 2024 | Planning FY 2025 | Planning Annual |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|---------------------|---------------------|--------------------|
| Individual Income Tax | \$ 11,841 | \$ 12,444 | \$ 12,135 | \$ 14,233 | \$ 14,477 | \$ 15,697 | \$ 16,400 | \$ 16,740 | |
| \$ change | 910 | 603 | (309) | 2,097 | 245 | 1,220 | 703 | 340 | |
| % change | 8.3% | 5.1% | -2.5% | 17.3% | 1.7% | 8.4% | 4.5% | 2.1% | 5.1% |
| Sales Tax | \$ 5,453 | \$ 5,762 | \$ 5,746 | \$ 6,169 | \$ 6,603 | \$ 7,220 | \$ 7,422 | \$ 7,642 | |
| \$ change | 48 | 309 | (17) | 424 | 433 | 617 | 202 | 220 | |
| % change | 0.9% | 5.7% | -0.3% | 7.4% | 7.0% | 9.3% | 2.8% | 3.0% | 4.9% |
| Corporate Tax | \$ 1,257 | \$ 1,621 | \$ 1,539 | \$ 2,258 | \$ 2,376 | \$ 2,051 | \$ 1,850 | \$ 1,804 | |
| \$ change | 51 | 364 | (82) | 719 | 117 | (325) | (201) | (46) | |
| % change | 4.3% | 29.0% | -5.1% | 46.7% | 5.2% | -13.7% | -9.8% | -2.5% | 5.3% |
| Statewide Property Tax | \$ 811 | \$ 811 | \$ 753 | \$ 803 | \$ 772 | \$ 764 | \$ 748 | \$ 749 | |
| \$ change | (47) | (1) | (57) | 50 | (31) | (8) | (16) | 0 | |
| % change | -5.5% | -0.1% | -7.1% | 6.6% | -3.9% | -1.0% | -2.1% | 0.0% | -1.1% |
| Other Tax Revenue | \$ 1,885 | \$ 1,961 | \$ 53,681 | \$ 2,197 | \$ 2,324 | \$ 2,310 | \$ 2,348 | \$ 2,403 | |
| \$ change | 53 | 76 | 51,720 | (51,484) | 127 | (14) | 38 | 55 | |
| % change | 2.9% | 4.0% | 2636.7% | -95.9% | 5.8% | -0.6% | 1.6% | 2.3% | 3.5% |
| Total Tax Revenue | \$ 21,248 | \$ 22,600 | \$ 73,854 | \$ 25,660 | \$ 26,552 | \$ 28,042 | \$ 28,769 | \$ 29,337 | |
| \$ change | 1,015 | 1,352 | 51,255 | (48,194) | 892 | 1,490 | 726 | 569 | |
| % change | 5.0% | 6.4% | 226.8% | -65.3% | 3.5% | 5.6% | 2.6% | 2.0% | 4.7% |
| Non-Tax Revenues | \$ 814 | \$ 879 | \$ 817 | \$ 922 | \$ 850 | \$ 775 | \$ 783 | \$ 782 | |
| \$ change | (5) | 65 | (62) | 105 | (71) | (75) | 7 | (0) | |
| % change | -0.6% | 8.0% | -7.0% | 12.8% | -7.7% | -8.8% | 0.9% | 0.0% | -0.6% |
| Transfers, All Other | \$ 235 | \$ 264 | \$ 256 | \$ 746 | \$ 248 | \$ 186 | \$ 136 | \$ 64 | |
| \$ change | (47) | 29 | (8) | 490 | (498) | (62) | (51) | (71) | |
| % change | -16.6% | 12.3% | -3.0% | 191.4% | -66.7% | -25.0% | -27.2% | -52.6% | -16.9% |
| Total Revenue | \$ 22,297 | \$ 23,743 | \$ 74,928 | \$ 27,329 | \$ 27,651 | \$ 29,004 | \$ 29,687 | \$ 30,184 | |
| \$ change | 963 | 1,446 | 51,185 | (47,599) | 322 | 1,353 | 683 | 497 | |
| % change | 4.5% | 6.5% | 215.6% | -63.5% | 1.2% | 4.9% | 2.4% | 1.7% | 4.4% |

⁽¹⁾Totals may not foot due to rounding.

*Transfers/All Other includes transfers into the General Fund available for general use, dedicated revenue and prior period accounting adjustments.

**HISTORICAL AND PROJECTED SPENDING GROWTH
GENERAL FUND END OF 2022 LEGISLATIVE SESSION
(\$'s in Millions)⁽¹⁾**

| | Actual FY 2018 | Actual FY 2019 | Actual FY 2020 | Actual FY 2021 | Enacted FY 2022 | Enacted FY 2023 | Planning FY 2024 | Planning FY 2025 | Average Annual |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|---------------------|---------------------|-------------------|
| E-12 Education | \$ 9,233 | \$ 9,588 | \$ 9,836 | \$ 9,919 | \$ 10,077 | \$ 10,426 | \$ 10,577 | \$ 10,666 | |
| \$ change | 332 | 355 | 248 | 83 | 158 | 348 | 151 | 89 | |
| % change | 3.7% | 3.8% | 2.6% | 0.8% | 1.6% | 3.5% | 1.4% | 0.8% | 2.1% |
| Higher Education | \$ 1,651 | \$ 1,642 | \$ 1,693 | \$ 1,714 | \$ 1,756 | \$ 1,776 | \$ 1,753 | \$ 1,753 | |
| \$ change | 95 | (9) | 51 | 21 | 42 | 20 | (23) | - | |
| % change | 6.1% | -0.5% | 3.1% | 1.2% | 2.4% | 1.1% | -1.3% | 0.0% | 0.9% |
| Prop. Tax Aids & Credits | \$ 1,724 | \$ 1,927 | \$ 1,867 | \$ 2,026 | \$ 2,575 | \$ 2,079 | \$ 2,152 | \$ 2,191 | |
| \$ change | 49 | 203 | (60) | 159 | 549 | (497) | 73 | 39 | |
| % change | 2.9% | 11.8% | -3.1% | 8.5% | 27.1% | -19.3% | 3.5% | 1.8% | 3.5% |
| Health & Human Services | \$ 6,622 | \$ 6,677 | \$ 7,035 | \$ 6,611 | \$ 7,039 | \$ 9,298 | \$ 9,004 | \$ 9,529 | |
| \$ change | 678 | 55 | 359 | (424) | 428 | 2,259 | (294) | 525 | |
| % change | 11.4% | 0.8% | 5.4% | -6.0% | 6.5% | 32.1% | -3.2% | 5.8% | 5.3% |
| Public Safety & Judiciary | \$ 1,130 | \$ 1,226 | \$ 1,237 | \$ 1,314 | \$ 1,353 | \$ 1,327 | \$ 1,341 | \$ 1,341 | |
| \$ change | (4) | 96 | 11 | 77 | 40 | (26) | 14 | (0) | |
| % change | -0.3% | 8.5% | 0.9% | 6.2% | 3.0% | -1.9% | 1.0% | 0.0% | 2.5% |
| Debt Service | \$ 563 | \$ 550 | \$ 540 | \$ 516 | \$ 592 | \$ 591 | \$ 585 | \$ 563 | |
| \$ change | 34 | (13) | (10) | (25) | 77 | (2) | (5) | (22) | |
| % change | 6.4% | -2.4% | -1.8% | -4.5% | 14.9% | -0.3% | -0.9% | -3.8% | 0.0% |
| All Other | \$ 1,424 | \$ 1,444 | \$ 1,570 | \$ 1,547 | \$ 2,600 | \$ 1,809 | \$ 1,454 | \$ 1,644 | |
| \$ change | 124 | 20 | 125 | (23) | 1,053 | (791) | (355) | 190 | |
| % change | 9.5% | 1.4% | 8.7% | -1.4% | 68.1% | -30.4% | -19.6% | 13.1% | 2.1% |
| Total Spending | \$ 22,347 | \$ 23,053 | \$ 23,778 | \$ 23,647 | \$ 25,994 | \$ 27,305 | \$ 26,866 | \$ 27,688 | |
| \$ change | 1,308 | 707 | 724 | (131) | 2,347 | 1,312 | (439) | 822 | |
| % change | 6.2% | 3.2% | 3.1% | -0.6% | 9.9% | 5.0% | -1.6% | 3.1% | 3.1% |

⁽¹⁾Totals may not foot due to rounding.

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BUDGET PLANNING ESTIMATES

Planning estimates for the Next Biennium are based on the February 2022 Forecast adjusted for legislative action. The planning projections contain revenue and expenditure estimates for the Next Biennium based on the most recent information about the national and state economic outlook, caseloads, enrollments and cost projections as amended to reflect legislative enactment of the budget for the Current Biennium. The longer-term estimates for the Next Biennium carry a higher degree of uncertainty and a larger range of potential error.

Action taken during the 2022 Legislative Session had significant impact on revenue and spending in the Next Biennium. For revenues, legislative action resulted in \$725 million less revenue than projected in February. The largest change impacting revenue is the reversal of a \$550 million transfer from the ARPA state fiscal recovery fund that was initially enacted in the 2021 Legislative Sessions. Other revenue changes, largely related to legislation extending Reinsurance that repealed transfers from the Health Care Access Fund into the General Fund, total \$175 million less revenue than forecast. For spending, changes resulted in increased base level spending by \$246 million compared to the February 2022 Forecast.

General Fund revenues, including the impact of legislative changes, in the Next Biennium are estimated to be \$59.871 billion, \$3.216 billion (5.7 percent) higher than estimates for the Current Biennium. Projected spending, including the impact of legislative changes, in the Next Biennium is now estimated to be \$54.553 billion, \$1.254 billion (2.4 percent) higher than estimates for the Current Biennium. Spending projections only include increases incorporated in current law to education aids, health care, and local aid/property tax relief programs based on enrollment, caseload and current law formula provisions. The impact of inflation is not reflected in expenditure projections.

The General Fund Budget Reserve Account and Cash Flow Account balances are not expected to change from the Current Biennium. The Stadium Reserve Account is expected to grow to \$581 million by the end of the Next Biennium, an increase of \$254 million over the Current Biennium, due to lawful gambling revenue collections.

Revenue, spending and reserve estimates for the Next Biennium will be updated in the November 2022 forecast.

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GENERAL FUND REVENUE SOURCES

Tax Sources

The State's principal sources of non-dedicated revenues are taxes of various types. A description of the major taxes is set forth below.

Income Tax: The income tax rate schedules for 2022 consist of four income brackets having tax rates of 5.35 percent, 6.80 percent, 7.85 percent and 9.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the national chained consumer price index. The starting point for computing tax liability is federal adjusted gross income (FAGI), per the Internal Revenue Code as of 1986, as amended through December 31, 2018. In computing taxable income, Minnesota allows a similar standard deduction to the IRS. Itemized deductions are similar to federal itemized deductions, with some exceptions. Minnesota allows for dependent exemptions (not taxpayer and spouse exemptions) that match the federal amount prior to 2018. Minnesota requires numerous other additions and subtractions to FAGI to arrive at taxable income. There is a subtraction for social security benefits included in FAGI. The subtraction phases out for higher-income taxpayers. The subtraction amounts and phase-out thresholds are indexed annually for inflation. Two earner couples are entitled to a non-refundable credit against tax liability to offset the additional tax liability that results from the "married joint" filing status as opposed to the "single" filing status. The maximum credit per return to offset this "marriage penalty" is \$1,596.00. In addition, the State tax code contains a refundable child-care credit, a working family credit, and an education credit all targeted at low income parents, and families. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income or AMTI (which is similar to federal alternative minimum taxable income) at a flat rate of 6.75 percent on AMTI in excess of an exemption amount, to the extent the minimum tax exceeds the regular tax.

SINGLE FILER

| Taxable Income | Tax |
|---|-------|
| on the first \$28,080 | 5.35% |
| on all over \$28,080 but not over \$92,230 | 6.80% |
| on all over \$92,230 but not over \$171,220 | 7.85% |
| on all over \$171,220 | 9.85% |

MARRIED FILING JOINTLY

| Taxable Income | Tax |
|---|-------|
| on the first \$41,050 | 5.35% |
| on all over \$41,050, but not over \$163,060 | 6.80% |
| on all over \$163,060, but not over \$284,810 | 7.85% |
| on all over \$284,810 | 9.85% |

Married individuals filing separate returns, estates and trusts must compute their income tax by applying married rates, except that the income brackets will be one-half of the above amounts.

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HEAD OF HOUSEHOLD

| Taxable Income | Tax |
|---|-------|
| on the first \$34,570 | 5.35% |
| on all over \$34,570, but not over \$138,890 | 6.80% |
| on all over \$138,890, but not over \$227,600 | 7.85% |
| on all over \$227,600 | 9.85% |

In 2021, legislation was enacted primarily focused on providing temporary tax relief related to the COVID-19 pandemic. The most significant provisions were conformity to the federal exclusion for debt forgiveness under the federal Paycheck Protection Program and the partial exclusion for unemployment benefits up to \$10,200 for taxpayers with adjusted gross income under \$150,000. In the 2021 Legislative Sessions, a pass-through entity tax was enacted. It was designed to be revenue neutral on a tax year basis but in early years may shift revenue between fiscal years. There may also be cases where the pass-through entity tax will have an effect on Minnesota income tax liability.

Sales and Use Tax: The sales tax rate of 6.875 percent is applicable to most retail sales of goods with the exception of food, clothing, and drugs. Purchases made by non-profit organizations, the federal government, all local governments and school districts are exempt. In general, capital equipment used in manufacturing, fabricating, mining and refining is exempt from tax. In November 2008, Minnesota voters voted to amend the constitution to raise the sales tax rate beginning on July 1, 2009, by 3/8 of 1 percentage point. The proceeds from the incremental increase are dedicated to funds other than the General Fund for the purpose of protecting the environment and preserving Minnesota’s arts and cultural heritage. The new general statewide rate is 6.875 percent. The 3/8 of 1 percent point increment will be in place through 2034.

Statewide Property Tax: A State general property tax is levied on commercial and industrial property, public utility property, unmined iron ore property, and seasonal recreational property, including cabins. There are separate rates for commercial-industrial property and residential-recreational property. Electric generation attached machinery and property located at the Minneapolis-St. Paul International Airport and the St. Paul Airport are exempt from this tax. Effective beginning with taxes payable in 2018, the first \$100,000 is exempt. The taxes are levied at a uniform rate across the State. For taxes payable in 2021, the commercial-industrial rate is 35.978 percent, and the residential-recreational rate is 17.306 percent. The levy amount used to determine the commercial-industrial rate is \$737.09 million, and the levy amount used to determine the residential-recreational rate is \$41.69 million. Beginning with tax year 2023 the exemption is increased to \$150,000 and the levies are reduced to \$716.99 million for commercial-industrial property.

Corporate Franchise Tax: A flat tax rate of 9.8 percent is imposed on corporate taxable income. In 2019, Minnesota adopted legislation in response to the federal Tax Cuts and Jobs Act. The legislation includes a number of provisions that expand the corporate tax base by limiting or repealing corporate deductions. Net operating losses are limited to 80% of income and the net interest deduction is limited to 30% of income, among other changes.

Beginning in 2014, corporations apportion their income to Minnesota solely on the basis of sales in Minnesota. An alternative minimum tax is imposed on Minnesota alternative minimum taxable income (which is similar to federal alternative minimum taxable income) at a flat rate of 5.8 percent, to the extent the minimum tax exceeds the regular tax.

Beginning in tax year 2002, Minnesota required 80 percent of federal “bonus depreciation” be added to taxable income and then deducted in five equal parts over the next five years. The effect of this provision is to negate the revenue loss that would otherwise result from federal “bonus depreciation”.

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A fee is imposed as a part of the franchise tax liability. The fee is in addition to the regular and alternative minimum tax. The amount of the fee is based on the sum of Minnesota property, payroll and sales. The 2013 Legislature adjusted the fee schedule and indexed the dollar amounts for inflation, based on the consumer price index. The chained consumer price index is used beginning in 2020. The fee schedule for tax year 2022 is shown below:

| Fee Basis | Amount of Fee |
|------------------------------|---------------|
| Less than \$1,080,000 | \$0 |
| \$1,080,000 to \$2,159,999 | \$220 |
| \$2,160,000 to \$10,809,999 | \$650 |
| \$10,810,000 to \$20,609,999 | \$2,160 |
| \$21,610,000 to \$43,219,999 | \$4,330 |
| \$43,220,000 or more | \$10,810 |

Insurance Gross Earnings Tax: A tax is imposed on the gross premium revenue of insurance companies at the following rates:

| | |
|-------|---|
| 1.5% | Life insurance |
| 1.26% | Mutual property and casualty companies with assets in excess of \$5 million but less than \$1.6 billion on 12/31/89 |
| 1.0% | Mutual property and casualty companies with assets less than \$5 million; town and farmers' mutual companies |
| 1.0% | Health Maintenance Organizations ("HMOs") and nonprofit health service plan corporations |
| 3.0% | Surplus line agents |
| 2.0% | All other insurance |
| 0.5% | Fire safety surcharge on homeowner's insurance, commercial fire and commercial nonliability insurance |
| 2.0% | Surcharge on fire premiums for property located in cities of the first class |

Liquor, Wine and Fermented Malt Beverages Tax: Liquor is taxed at \$5.03 per gallon. Wine is taxed at rates that vary from \$0.30 per gallon to \$3.52 per gallon, depending on the alcohol content. Beer is taxed at \$2.40 per 31-gallon barrel for beer with alcoholic contents of 3.2 percent by volume or less, and \$4.60 per 31-gallon barrel for strong beer.

A gross receipts tax of 2.5 percent is imposed on alcoholic beverages sold at retail; this is in addition to the 6.875 percent sales tax on alcoholic beverages.

Cigarette and Tobacco Products Tax: The cigarette tax is \$3.04 per pack. The 2017 Legislature repealed the annual inflationary adjustment. In addition, a pack is subject to a tax in lieu of sales tax of 66.3 cents for 2022. The in-lieu sales tax rate is determined annually based on 6.5% of the estimated average weighted retail price. The tax on tobacco products is 95 percent of the wholesale price. An electronic cigarette or e-cigarette is a device that simulates smoking tobacco. Electronic cigarettes ("e-cigarettes") and e-juice (fluid in cartridges used with e-cigarettes) are considered tobacco products and are subject to the tobacco tax.

Estate Tax: The tax base is the federal gross estate less various exemptions and deductions, multiplied by the percentage of the decedent's total property that has a Minnesota situs. Estate tax rates range from 13% to 16% for decedents dying in 2018 and thereafter. There is a general state subtraction or exclusion amount equal to \$3.0 million for deaths in 2020 and after.

Mortgage Tax: A tax of 23 cents is imposed on each \$100 dollars of debt secured by real property. 97 percent of the proceeds go to the State's General Fund and 3 percent to the county in which the property is located.

Deed Tax: A tax of 0.33 percent or \$1.65 for increments less than \$3,000 of consideration is imposed on the transfer of real estate by any deed, instrument, or writing. 97 percent of the proceeds go to the State's General Fund and 3 percent to the county in which the property is located.

Gambling Tax: A 6 percent tax is imposed on the takeout in excess of \$12 million of pari-mutuel horse races at licensed tracks. The takeout is 17 percent of straight pools and 23 percent for multiple pools.

The Stadium Legislation imposed a tax on net gambling receipts -- gross receipts less prizes paid (see table below). The Stadium Legislation authorized two types of electronic charitable gambling: electronic linked bingo and electronic pull tabs.

The current gambling tax structure is as follows:

| | |
|--|--------|
| Net Receipts Tax on Existing Bingo, Raffles, Paddlewheels | 8.5% |
| Net Receipts Tax on All Pull-tabs, All Tip boards Except Sports Tip boards, and Electronic Linked Bingo (taxed on an organization basis) | |
| Not over \$87,500 | 9.0% |
| Over \$87,500, but not over \$122,500 | 18.0% |
| Over \$122,500, but not over \$157,500 | 27.0% |
| Over \$157,500 | 36.0% |
| Sports-themed Tip boards | exempt |

Taconite and Iron Ore Occupation Tax: The base of the occupation tax is the value of the ore less expenses required to convert it into marketable quality. Since tax year 2006, the rate of the tax has been 2.45 percent. For purposes of the corporate franchise tax apportionment formula, transfers of ore are deemed to be Minnesota sales.

Health Care Provider Tax: A tax is imposed upon licensed nursing homes, hospitals, and health maintenance organizations, including a \$2,815 tax per licensed nursing home bed, a 1.56 percent tax on the net patient revenue of hospitals (excluding Medicare revenue), a 0.6 percent tax on the total premium revenue of health maintenance organizations, and a \$3,679 tax per licensed intermediate care facility bed.

Other Sources

In addition to the major taxes described above, other sources of non-dedicated revenues include minor taxes, unrestricted grants, certain fees and charges of State agencies and departments, and investment income.

The General Fund receives no unrestricted federal grants. The only federal funds deposited into the General Fund are to reimburse the State for expenditures on behalf of federal programs.

Under the Stadium Legislation, proceeds of certain local special sales, liquor, lodging and restaurant taxes imposed by the City of Minneapolis under Minnesota Laws 1986, Chapter 396, as amended, are to be deposited in the General Fund each year from 2021 through 2046 in an aggregate present value amount of \$150,000,000, plus certain specified amounts each year for the purpose of paying a portion of annual operating costs and contributions to a capital reserve for the stadium project authorized by the Stadium Legislation.

Tobacco Settlement

On May 8, 1998, the State of Minnesota settled a lawsuit initiated against several tobacco companies. The settlement agreement as amended as of June 1, 2001, (the “Minnesota Agreement”), between the Attorney General of the State and the then-existing four largest United States cigarette manufacturers, Philip Morris, Reynolds Tobacco, Lorillard and B & W (collectively, the “Settling Defendants”)¹, requires the Settling Defendants to make annual payments to the State. The payments are to be made at the beginning of the calendar year and are scheduled into perpetuity. These amounts are adjusted based on volume of tobacco products sold and the consumer price index as indicated in the settlement documents. Payments made pursuant to the Minnesota Agreement are made to an account designated in writing by the State, which is an account within the General Fund of the State Treasury. The increased use of e-cigarettes may have an impact on the tobacco revenues.

¹ On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of B & W with those of Reynolds Tobacco, which occurred on June 30, 2004. References herein to the “Settling Defendants” mean, for the period prior to June 30, 2004, collectively, Philip Morris, Reynolds Tobacco, B & W and Lorillard and for the period on and after June 30, 2004, collectively Philip Morris, Reynolds American and Lorillard. On June 12, 2015, Reynolds American Inc. acquired Lorillard by way of merger, and in a related divestiture, certain of the settling Defendants’ cigarette brands were sold to ITG Brands, LLC. No settlement payments are being made on the cigarette brands sold to ITG Brands. The State does receive fee-in-lieu of settlement tax payments on the transferred brands pursuant to Minnesota Statute, Section 267F.34. On March 23, 2018, the State filed suit against Reynolds Tobacco and ITG to collect the difference between what the State receives in fee-in-lieu taxes and what is owed to the State as settlement payments on the transferred brands. The State settled the matter in March 2021. Under the terms of the settlement, sales and profits on the transferred brands will be included in future years settlement payments, and the State received a back payment for the amounts owed on sales and profits of the transferred brands for 2015-2020.

Pursuant to the Minnesota Agreement, the State agreed to settle all its past, present and future smoking-related claims against the Settling Defendants in exchange for agreements and undertakings by the Settling Defendants concerning a number of issues. These issues include, among others, making payments to the State, abiding by more stringent advertising restrictions, funding educational programs, ensuring public access to court documents and files and requiring disclosure of certain payments to lobbyists, all in accordance with the terms and conditions set forth in the Minnesota Agreement.

The Minnesota Agreement requires that the Settling Defendants make two types of payments, “Initial Payments” due in the years 1998 through 2003 and “Annual Payments” due in 1998 and continuing in perpetuity as well as certain court-administered payments. The base amount of these payments (with the exception of the up-front Initial Payments) are subject to certain adjustments (including those for inflation and volume), which could be material.

Payments required to be made by the Settling Defendants are calculated by reference to the Settling Defendants’ respective share of sales of cigarettes (which in practice have been measured by shipments) by unit for consumption in the United States (excluding Puerto Rico). Payments to be made by the Settling Defendants are recalculated each year, based on the market share of each individual Settling Defendant for the prior year. A significant loss of market share by the Settling Defendants could have a material adverse effect on the payments by the Settling Defendants under the Minnesota Agreement. The Minnesota Agreement does not contain any terms providing for a process to dispute the calculation of Annual Payments or any adjustments to such payments. To date, neither the Settling Defendants nor the State have disputed any of the calculations of payments under the Minnesota Agreement.

As required, the Settling Defendants have made all of the Initial Payments and have made Annual Payments from 1998 through 2022 and certain other amounts pursuant to the Minnesota Agreement totaling approximately \$5.258 billion to date.

| | Unadjusted Minnesota Agreement Applicable Base Payment | State’s Actual Receipts⁽¹⁾ |
|------------------------------|---|--|
| FY2013 Annual Payment | 204,000,000 | 170,060,090 |
| FY2014 Annual Payment | 204,000,000 | 175,398,533 |
| FY2015 Annual Payment | 204,000,000 | 170,746,036 |
| FY2016 Annual Payment | 204,000,000 | 171,238,161 |
| FY2017 Annual Payment | 204,000,000 | 168,226,161 |
| FY2018 Annual Payment | 204,000,000 | 166,931,236 |
| FY2019 Annual Payment | 204,000,000 | 162,765,479 |
| FY2020 Annual Payment | 204,000,000 | 152,282,216 |
| FY2021 Annual Payment | 204,000,000 | 254,190,406 ⁽²⁾ |
| FY2022 Annual Payment | 204,000,000 | 192,965,398 |

⁽¹⁾As reported by the State and to the best of the State’s knowledge, amounts reflect the State’s actual receipts, including applicable adjustments.

⁽²⁾ Includes \$81,569,642.90 for the R.J. Reynolds settlement for unpaid obligations from 2015-2020.

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CASH FLOW INFORMATION

The Statutory General Fund is established in Minnesota Statutes, Section 16A.671, subdivision 3a, and is defined as follows:

“...all cash and investments from time to time received and held in the treasury, except proceeds of State bonds and amounts received and held in special or dedicated funds created by the constitution, or by or pursuant to federal laws or regulations, or by bond or trust instruments, pension contracts, or other agreements of the State or its agencies with private persons, entered into under State law.”

The General Fund, special revenue funds, internal service funds, enterprise funds and capital projects funds make up the Statutory General Fund. Cash contained in the Statutory General Fund is available for State cash flow purposes.

Major special revenue funds included in the Statutory General Fund include the Petro Tank Release, the State Airports, the Game and Fish, the Workforce Development, the Tobacco Use Prevention, the Workers Compensation, the Environmental Waste and the Northeast Minnesota Economic Development funds.

Internal service funds, enterprise funds and capital project funds included in the Statutory General Fund include Minnesota State, General Projects, Risk Management, Lottery Cash Flow and State Operated Services Funds.

The estimated vs. actual revenues and expenditures are monitored to ensure adequate cash flow. There are more than 80 funds within the Statutory General Fund. MMB manages short-term intra-fund borrowing within the Statutory General Fund, balancing the cash needs of various programs with actual daily receipts and disbursements.

The State may, subject to certain limitations, issue certificates in anticipation of the collection of taxes levied for and other revenue appropriated to the Statutory General Fund for expenditure during the biennium. Minnesota Statutes, Section 16A.671, authorizes the Commissioner to sell certificates of indebtedness in the following manners:

- advertising for competitive bids;
- negotiating contracts with banks in or out of State to establish lines of credit;
- negotiating contracts with firms of underwriters that will purchase or act as agents in the placement of certificates of indebtedness;
- entering into contracts with banks in or out of State to authenticate, issue, pay principal and interest on, cancel, and otherwise deal as fiscal agents of the State with certificates of indebtedness issued as outlined above; and
- selling certificates of indebtedness to the State Board of Investment without advertising for bids.

The tables on the following pages show the projections of monthly Statutory General Fund cash flows for FY 2022 and FY 2023 based on the end of 2022 Legislative Session. The table for FY 2022 represents actual Statutory General Fund cash flow balances through June 30, 2022. The table for FY 2023 represents projected Statutory General Fund cash flow balance for that fiscal year. The projected monthly cash flow analyses have been formatted to include transfers in and transfers out to more accurately reflect State operations. The payment of debt service is included in transfers out for each fiscal year. Please note that monthly cash flow projections are subject to a high level of variability.

The State may, if needed, utilize a variety of administrative tools to manage Statutory General Fund cash flow on a daily basis. Those tools may consist of, and are not limited to, statutorily permitted delays in certain payments to higher education institutions, and health care providers, as well as delays in remittance of certain corporate and sales tax refunds.

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2022 LEGISLATIVE SESSION
ACTUALS FOR FISCAL YEAR ENDED JUNE 30, 2022
(\$'s in Thousands)

| | <u>Jul-21</u> | <u>Aug-21</u> | <u>Sep-21</u> | <u>Oct-21</u> | <u>Nov-21</u> | <u>Dec-21</u> | <u>Jan-22</u> | <u>Feb-22</u> | <u>Mar-22</u> | <u>Apr-22</u> | <u>May-22</u> | <u>Jun-22</u> |
|-----------------------------|--------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Act | Act | Act | Act | Act | Act | Act | Act | Act | Act | Act | Act |
| Beginning Cash Balance | 12,140,642 | 10,620,404 | 9,665,489 | 10,466,960 | 11,286,889 | 11,907,642 | 12,084,729 | 13,542,084 | 12,753,192 | 14,151,636 | 17,029,460 | 16,619,219 |
| Individual Income Tax | 1,102,604 | 889,507 | 1,448,359 | 939,530 | 723,286 | 1,146,457 | 1,574,058 | 584,056 | 1,245,703 | 3,302,641 | 809,303 | 1,360,159 |
| Corporate Tax | (62,249) | 61,911 | 580,124 | 77,621 | 65,496 | 926,312 | 722,477 | 45,219 | 914,629 | 528,449 | 70,594 | 794,418 |
| Sales Tax | 307,327 | 611,739 | 616,189 | 642,134 | 602,254 | 577,278 | 691,208 | 500,461 | 467,760 | 660,558 | 564,284 | 572,801 |
| Property Tax | 21,499 | 514 | 0 | 155,420 | 161,066 | 12,235 | 5,693 | 43 | 0 | 0 | 172,036 | 237,995 |
| Tobacco Tax | 6,741 | 74,131 | 60,124 | 42,409 | 50,759 | 57,289 | 84,416 | 20,789 | 32,115 | 44,580 | 41,472 | 98,735 |
| Insurance Tax | 4,115 | 14,238 | 119,620 | 404 | 10,526 | 118,238 | 4,092 | 34,481 | 158,093 | 5,244 | 4,362 | 134,759 |
| Excise Tax | 193,006 | 137,497 | 113,823 | 224,834 | 147,581 | 130,752 | 259,301 | 146,949 | 156,291 | 253,219 | 200,110 | 161,435 |
| Investment Earnings | 2,703 | 4,921 | 2,734 | 2,550 | 2,737 | 2,883 | 2,374 | 3,668 | 3,295 | 4,621 | 6,775 | 10,458 |
| Interagency Grants | 12,902 | 18,677 | 8,371 | 13,662 | 6,473 | 12,278 | 20,529 | 15,403 | 11,628 | 12,320 | 15,221 | 20,722 |
| Other Revenue | 362,503 | 495,561 | 435,335 | 299,887 | 340,775 | 367,474 | 688,044 | 289,179 | 365,502 | 350,354 | 389,385 | 365,749 |
| Total Revenue | 1,951,151 | 2,308,697 | 3,384,681 | 2,398,451 | 2,110,954 | 3,351,196 | 4,052,192 | 1,640,247 | 3,355,016 | 5,161,986 | 2,273,542 | 3,757,230 |
| Transfer In | 1,370,747 | 330,024 | 230,089 | 192,655 | 126,624 | 145,138 | 106,204 | 130,746 | 115,934 | 173,077 | 93,975 | 360,313 |
| Total Sources | 3,321,898 | 2,638,721 | 3,614,769 | 2,591,105 | 2,237,577 | 3,496,333 | 4,158,396 | 1,770,993 | 3,470,950 | 5,335,063 | 2,367,516 | 4,117,543 |
| Compensation | 487,166 | 330,802 | 337,079 | 338,404 | 345,924 | 499,918 | 337,517 | 353,920 | 289,892 | 349,649 | 354,806 | 352,602 |
| Agency Operations | 311,578 | 263,087 | 192,580 | 229,244 | 177,538 | 200,927 | 245,352 | 191,710 | 241,664 | 200,311 | 608,892 | 216,036 |
| Aid to Schools | 213,616 | 1,399,560 | 1,015,799 | 559,636 | 209,573 | 732,715 | 965,123 | 975,226 | 1,151,966 | 1,207,626 | 956,132 | 462,416 |
| Aid to Cities & Towns | 341,196 | 40,462 | 90,306 | 8,785 | 19,135 | 317,573 | 9,980 | 8,168 | 13,150 | 5,346 | 15,128 | 6,934 |
| Aid to Counties | 191,104 | 73,175 | 35,885 | 33,657 | 24,266 | 191,453 | 18,648 | 19,867 | 19,453 | 27,821 | 15,861 | 14,633 |
| Aid to Higher Ed | 75,143 | 110,823 | 120,232 | 83,268 | 70,326 | 74,935 | 136,774 | 105,379 | 69,732 | 100,916 | 72,200 | 100,193 |
| Aid to Non-Gov't | 101,605 | 30,542 | 25,864 | 12,282 | (34,525) | 42,953 | 41,202 | 39,218 | 32,166 | 53,664 | 44,937 | 8,326 |
| Aid to Other Gov't | 28,124 | 15,714 | 35,652 | 20,068 | 18,807 | 15,263 | 13,758 | 18,194 | 15,665 | 15,632 | 13,557 | 13,560 |
| DHS Payments to Individuals | 1,511,836 | 616,015 | 538,315 | 257,066 | 570,222 | 492,887 | 811,893 | 668,625 | 100,936 | 322,981 | 582,232 | 291,897 |
| Other Aid to Individuals | 79,823 | 369,857 | 243,214 | 40,742 | 19,932 | 11,602 | 6,915 | 9,204 | 11,272 | 10,198 | 2,937 | 5,230 |
| Other Expenditures | 6,928 | (8,916) | 5,529 | (3,120) | 5,770 | (3,326) | 12,601 | (8,885) | (1,672) | 634 | 1,764 | (18,944) |
| Total Expenditures | 3,348,121 | 3,241,122 | 2,640,454 | 1,580,032 | 1,426,968 | 2,576,900 | 2,599,762 | 2,380,628 | 1,944,225 | 2,294,779 | 2,668,447 | 1,452,882 |
| Transfer Out | 1,494,016 | 352,515 | 172,844 | 191,145 | (439,584) | 742,346 | 101,280 | 179,256 | 128,282 | 162,459 | 109,311 | 340,921 |
| Transfer Out Debt Service | 0 | 0 | 0 | 0 | 629,440 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Uses | 4,842,136 | 3,593,637 | 2,813,298 | 1,771,177 | 1,616,824 | 3,319,246 | 2,701,042 | 2,559,884 | 2,072,506 | 2,457,239 | 2,777,758 | 1,793,803 |
| Sources Less Uses | (1,520,238) | (954,916) | 801,472 | 819,929 | 620,753 | 177,087 | 1,457,354 | (788,891) | 1,398,444 | 2,877,825 | (410,241) | 2,323,740 |
| High Point | 12,282,083 | 10,800,647 | 11,653,737 | 11,487,707 | 12,054,137 | 12,157,803 | 14,410,074 | 13,863,396 | 14,551,821 | 17,232,870 | 17,461,824 | 18,972,799 |
| Low Point | 10,599,788 | 9,656,830 | 9,651,704 | 10,232,716 | 11,050,341 | 10,938,259 | 11,783,308 | 12,753,192 | 12,562,352 | 13,936,364 | 16,068,257 | 16,569,518 |
| Ending Cash Balance | 10,620,404 | 9,665,489 | 10,466,961 | 11,286,889 | 11,907,642 | 12,084,729 | 13,542,084 | 12,753,192 | 14,151,636 | 17,029,461 | 16,619,219 | 18,942,960 |

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2022 LEGISLATIVE SESSION
ESTIMATES FOR FISCAL YEAR ENDING JUNE 30, 2023
(\$'s in Thousands)

| | <u>Jul-22</u> | <u>Aug-22</u> | <u>Sep-22</u> | <u>Oct-22</u> | <u>Nov-22</u> | <u>Dec-22</u> | <u>Jan-23</u> | <u>Feb-23</u> | <u>Mar-23</u> | <u>Apr-23</u> | <u>May-23</u> | <u>Jun-23</u> |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Est | Est | Est | Est | Est | Est | Est | Est | Est | Est | Est | Est |
| Beginning Cash Balance | 18,942,960 | 17,883,429 | 16,247,895 | 17,254,913 | 17,536,035 | 17,156,303 | 17,570,697 | 18,028,414 | 17,233,826 | 17,016,850 | 18,429,558 | 18,455,336 |
| Individual Income Tax | 907,123 | 966,518 | 1,800,296 | 998,921 | 828,904 | 1,393,709 | 1,817,685 | 623,039 | 1,210,384 | 2,561,324 | 939,182 | 1,650,038 |
| Corporate Tax | 82,699 | 41,590 | 444,927 | 94,603 | 64,603 | 430,488 | 37,000 | 25,553 | 268,836 | 175,273 | 45,502 | 340,071 |
| Sales Tax | 626,142 | 682,115 | 651,855 | 655,441 | 626,137 | 603,297 | 707,655 | 505,360 | 472,163 | 621,405 | 588,970 | 581,805 |
| Property Tax | 15,639 | (0) | (0) | 164,209 | 164,209 | 19,549 | 3,910 | (0) | 0 | (0) | 202,050 | 194,567 |
| Tobacco Tax | 6,845 | 64,287 | 66,754 | 52,175 | 50,788 | 48,746 | 75,546 | 31,941 | 37,163 | 50,946 | 43,232 | 102,031 |
| Insurance Tax | 3,987 | 14,332 | 116,567 | 389 | 7,068 | 114,045 | 3,200 | 44,429 | 140,240 | 861 | 4,907 | 115,459 |
| Excise Tax | 183,665 | 104,585 | 163,371 | 242,100 | 129,383 | 133,005 | 235,645 | 139,428 | 129,052 | 279,023 | 126,366 | 228,421 |
| Investment Earnings | 3,336 | 3,534 | 3,624 | 2,219 | 5,286 | 5,688 | 2,305 | 5,845 | 2,418 | 4,250 | 6,695 | 4,620 |
| Interagency Grants | 15,613 | 15,467 | 17,922 | 9,915 | 5,479 | 10,105 | 9,642 | 15,491 | 14,124 | 15,142 | 7,447 | 15,189 |
| Other Revenue | 432,803 | 379,605 | 357,343 | 263,281 | 270,407 | 567,682 | 488,287 | 231,609 | 326,690 | 423,989 | 268,564 | 442,807 |
| Total Revenue | 2,277,854 | 2,272,033 | 3,622,658 | 2,483,252 | 2,152,264 | 3,326,312 | 3,380,875 | 1,622,696 | 2,601,071 | 4,132,213 | 2,232,916 | 3,675,008 |
| Transfer In | 642,916 | 558,937 | 113,795 | 115,616 | 89,107 | 97,389 | 110,856 | 142,045 | 133,956 | 94,513 | 110,306 | 1,007,498 |
| Total Sources | 2,920,770 | 2,830,970 | 3,736,453 | 2,598,868 | 2,241,371 | 3,423,701 | 3,491,731 | 1,764,741 | 2,735,027 | 4,226,725 | 2,343,222 | 4,682,507 |
| Compensation | 495,688 | 321,409 | 309,149 | 332,680 | 393,087 | 437,669 | 336,011 | 332,699 | 313,157 | 345,074 | 406,715 | 382,898 |
| Agency Operations | 325,439 | 212,559 | 206,810 | 199,524 | 115,469 | 268,798 | 204,403 | 122,035 | 250,057 | 219,358 | 148,580 | 255,733 |
| Aid to Schools | 285,853 | 1,471,742 | 1,028,346 | 586,269 | 228,511 | 813,886 | 1,030,182 | 1,021,323 | 1,269,450 | 1,226,250 | 1,023,135 | 504,861 |
| Aid to Cities & Towns | 311,163 | 20,044 | 12,494 | 106,901 | 23,379 | 315,085 | 29,990 | 14,558 | 11,114 | 18,098 | 7,748 | 11,565 |
| Aid to Counties | 192,021 | 33,272 | 38,238 | 56,732 | 15,935 | 173,787 | 12,296 | 13,239 | 15,131 | 17,050 | 32,584 | 9,154 |
| Aid to Higher Ed | 82,399 | 141,870 | 69,888 | 61,498 | 56,404 | 111,871 | 110,389 | 70,967 | 62,629 | 93,036 | 80,822 | 66,512 |
| Aid to Non-Gov't | 34,426 | 25,456 | 35,096 | 27,482 | 23,711 | 25,780 | 32,684 | 34,424 | 28,745 | 67,297 | 30,200 | 20,959 |
| Aid to Other Gov't | 29,304 | 18,742 | 32,100 | 18,881 | 13,948 | 12,842 | 13,707 | 6,781 | 12,293 | 12,060 | 11,944 | 259 |
| DHS Payments to Individuals | 1,229,759 | 1,200,305 | 483,207 | 640,374 | 734,895 | 703,898 | 1,097,089 | 754,276 | 677,398 | 673,794 | 423,245 | 474,861 |
| Other Aid to Individuals | 97,276 | 276,384 | 360,278 | 117,975 | 14,480 | 12,903 | 13,178 | 3,990 | 17,573 | 7,179 | 5,018 | 23,607 |
| Other Expenditures | 31,880 | 32,552 | 27,588 | 54,018 | 32,951 | 21,212 | 41,982 | 27,674 | 23,877 | 25,559 | 25,811 | 21,782 |
| Total Expenditures | 3,115,208 | 3,754,335 | 2,603,194 | 2,202,334 | 1,652,769 | 2,897,731 | 2,921,910 | 2,401,966 | 2,681,424 | 2,704,753 | 2,195,801 | 1,772,190 |
| Transfer Out | 865,094 | 712,169 | 126,241 | 115,412 | 377,593 | 111,577 | 112,104 | 157,362 | 270,579 | 109,264 | 121,643 | 403,507 |
| Transfer Out Debt Service | 0 | 0 | 0 | 0 | 590,741 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Uses | 3,980,301 | 4,466,504 | 2,729,435 | 2,317,746 | 2,621,103 | 3,009,307 | 3,034,014 | 2,559,328 | 2,952,003 | 2,814,017 | 2,317,444 | 2,175,697 |
| Sources Less Uses | (1,059,531) | (1,635,534) | 1,007,018 | 281,122 | (379,732) | 414,393 | 457,717 | (794,587) | (216,976) | 1,412,708 | 25,778 | 2,506,810 |
| High Point | 19,035,140 | 17,830,465 | 17,971,533 | 17,851,197 | 18,028,477 | 17,759,092 | 18,946,657 | 18,259,218 | 18,006,041 | 19,196,296 | 18,781,331 | 21,031,207 |
| Low Point | 17,866,469 | 16,171,456 | 16,281,750 | 17,077,132 | 17,156,303 | 16,846,672 | 17,298,774 | 17,233,826 | 16,959,340 | 17,052,346 | 18,312,374 | 18,633,078 |
| Ending Cash Balance | 17,883,429 | 16,247,895 | 17,254,913 | 17,536,035 | 17,156,303 | 17,570,697 | 18,028,414 | 17,233,826 | 17,016,850 | 18,429,558 | 18,455,336 | 20,962,145 |

HEALTH CARE ACCESS FUND

The Health Care Access Fund was established to account for revenues and expenditures for initiatives that promote access to and contain the cost of health care. MinnesotaCare® is a sliding-scale health insurance program for working Minnesotans and has historically been the largest expenditure out of the Fund. It was established by the 1992 Legislature to provide subsidized coverage for long term uninsured Minnesotans. The Legislature has modified program eligibility and benefits over time. Currently, the largest expenditures out of the fund are for Medical Assistance, Minnesota's Medicaid program.

A tax on gross revenues of hospitals, health care providers, ambulatory surgical centers and wholesale drug distributors, and a 1 percent gross premium tax on nonprofit health service plans and HMOs represent the primary revenues into the Fund. Prior to the 2019 Legislative Sessions, the provider tax was set at a rate of 2 percent and was scheduled to expire after December 31, 2019, based on actions by the 2011 Legislature. The 2019 Legislature removed the sunset and lowered the tax rate from 2 percent to 1.8 percent effective in tax year 2020. State law also includes a provision which reduces portions of the tax revenues to the Health Care Access Fund depending upon the outlook for that year. To date, the criteria for reducing the tax have never been met.

Since January 1, 2015, MinnesotaCare® has operated as a Basic Health Program ("BHP"), an option available to states under the Affordable Care Act. A BHP allows Minnesota to use federal tax subsidies to support coverage of individuals who would otherwise be eligible to purchase coverage through MNSure, Minnesota's health insurance marketplace. Following federal eligibility changes, since January 1, 2014, MinnesotaCare® has served Minnesotans with incomes between 138 percent and 200 percent of Federal Poverty Guidelines.

Projected activity in the Health Care Access Fund for the Current Biennium are detailed below:

CURRENT BIENNIUM HEALTH CARE ACCESS FUND (\$'s in Millions)

| | |
|--|---------------|
| Resources | |
| Projected Unreserved Balance at June 30, 2021 | \$ 552 |
| Revenues | <u>1,784</u> |
| Total Resources | \$ 2,336 |
| Expenditures | <u>1,473</u> |
| Projected Unreserved Balance Before Transfers | \$863 |
| Transfers to Other Funds | <u>264</u> |
| Projected Unrestricted Balance at June 30, 2023 | <u>\$ 599</u> |

During the 2022 Legislative Session, Minnesota extended and funded its reinsurance program for three additional years through calendar year 2025. Operation of this program reduces the amount of federal Basic Health Program funding the State receives. This results in the Health Care Access Fund paying a larger share of MinnesotaCare claims. In order to reduce the impact on the Health Care Access Fund for this policy change, the Legislature appropriated \$529.557 million from the General Fund to operate the reinsurance program and reduced a statutory transfer to the General Fund in the amount of \$173.8 million in the Next Biennium.

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MINNESOTA DEFINED BENEFIT PENSION PLANS

General Information

The State has three major statewide retirement systems that cover most of the public employees of the State and its counties, municipalities and school districts. These systems are the Minnesota State Retirement System (“MSRS”), the Public Employees Retirement Association (“PERA”) and the State Teachers’ Retirement Association (“TRA”) and collectively, the “Retirement Systems”). The Retirement Systems were established by the Legislature in 1929 through 1931 to collect the contributions of employees and employers and to pay retirement and disability benefits to public employees and their beneficiaries.

Each system is governed by a board consisting of both elected and appointed members. Actions of the pension systems are also subject to review by the Legislative Commission on Pensions and Retirement (“LCPR”)¹, as well as the full Minnesota Legislature. The LCPR is made up of fourteen members from both the House and Senate, and are appointed at the beginning of each biennium. Generally, legislative changes approved by the pension boards are brought first to the LCPR for consideration. In certain instances, the LCPR has the power to ratify, modify, or veto changes brought forward by the pension systems. For example, certain actuarial assumptions such as mortality tables can be approved by LCPR without further legislative action. In other cases, the LCPR provides a recommendation or includes legislation in an omnibus pension bill, which then requires approval by the full Legislature.

Each plan administrator accounts for one or more pension plans as part of their system. For some of these plans, the State contributes as an employer and/or a non-employer contributing entity, while the State performs only a fiduciary role for other plans. These pension plans are categorized as either defined benefit or defined contribution pension plans. The State is the primary contributing employer for MSRS and is a very small contributing employer for the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State appropriates general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans.

In a defined benefit pension plan, a periodic (usually monthly) benefit is paid to retired and disabled members and survivors of deceased employees in an amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits, salary and age at time of retirement. The benefit is payable to the retiree for life and, if applicable, a survivor’s benefit is provided to the designated beneficiary of the retiree. To fund the benefits paid by the defined benefit pension plan, both the employee and employer make a contribution to the plan based on a percentage of the plan member’s salary. The employee and employer contribution percentages for each retirement plan are specified in Minnesota Statutes. Actuarially required contributions to the plans are calculated annually by an independent actuary pursuant to Minnesota Statutes. See “Actuarial Valuation Requirements” in this APPENDIX B.

MSRS, PERA and TRA each prepare and publish their own annual comprehensive financial report, consisting of financial statements and required supplementary information that contains detailed financial and actuarial information. Much of the information that is contained in this section “MINNESOTA DEFINED BENEFIT PENSION PLANS” (i) relies on information produced by the administrators of the Retirement Systems or their accounting and actuary agents, and (ii) depends upon future events, which may or may not be consistent with any of the assumptions, may deviate significantly from those assumptions and may alter the outcomes of the plans and the obligations of the State and other employers as a result.

The financial reports include information determined using assumptions and methodologies required by Minnesota Statutes and using assumptions and methodologies required by GASB. Including this information is necessary for the Retirement Systems to comply with both state law and GASB requirements. For Fiscal Year 2021, the external auditors rendered unmodified audit opinions with respect to the financial statements of the three Retirement Systems, each of which contains the dual reporting structure.

As a component of the financial reporting for Minnesota’s defined benefit pension plans, the State has implemented accounting standards issued by GASB, including GASB Statement 67 - Financial Reporting for Pension Plans, GASB Statement 68 - Accounting and Financial Reporting for Pensions, and GASB Statement 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date. The GASB 67 standard requires each of the Retirement Systems to determine its net pension liability (“NPL”) using assumptions that conform to actuarial standards of practice issued by the Actuarial Standards Board. The NPL is defined as the difference between the total pension

¹More information on the Legislative Commission on Pensions and Retirement (LCPR) can be found at <http://www.lcpr.leg.mn/>.

liability (the present value of projected benefit payments to employees based on their past service) and the fair value of most assets at the end of each fiscal year set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries.

Minnesota Statutes, Section 356.20, also requires the Retirement Systems to include in their annual financial reports information using funding-focused statutory assumptions and methodologies. Following are the main reasons for the differences between the financial data contained in the statutory funding focused information and the GASB-based information:

- Until Fiscal Year 2018, the discount rate required by statute for funding purposes has been different from the discount rate used for GASB financial reporting purposes. The discount rate is the rate used to bring the projected pension benefits to the present value of these benefits. Under the statutory “select and ultimate” method investment earnings assumption, effective commencing with the July 1, 2012, actuarial valuation report, the annualized assumed investment return was 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 8.5 percent beginning Fiscal Year 2018 and years thereafter. However, the 2015 Legislature reduced the annualized assumed investment return from 8.5 percent to 8.0 percent for MSRS, PERA, and the Saint Paul Teachers Retirement Fund Association (“SPTRFA”) beginning Fiscal Year 2016 and years thereafter. The 2018 Legislature further reduced the annualized assumed investment return to 7.5 percent for MSRS, PERA, TRA, and SPTRFA beginning Fiscal Year 2018 and years thereafter. In contrast, for Fiscal Year 2016, the discount rate used for GASB financial reporting purposes was 7.5 percent for MSRS and PERA and 8.0 percent for TRA, as determined by each Retirement System’s management, in consultation with their actuaries, and in accordance with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In Fiscal Year 2017, MSRS and PERA retained the 7.5 percent discount rate, and TRA reduced the discount rate from 8.0 percent to 4.66 percent in Fiscal Year 2016 and to 5.12 percent in Fiscal Year 2017, for GASB financial reporting purposes. In Fiscal Years 2018-2020, MSRS, TRA and PERA all utilized a discount rate of 7.5 percent for GASB financial reporting purposes. Beginning in Fiscal Year 2021, the 7.5 percent discount rate required by statute deviated from GASB reporting for all three retirement systems in Minnesota. For GASB purposes MSRS and PERA utilized a 6.5 percent discount rate, while TRA utilized a 7.0 percent discount rate. See “Retirement Systems Funding” in this APPENDIX B for additional information regarding statutory and financial reporting discount rates.
- The statutory asset valuation method required for funding purposes continues to be different from the GASB asset valuation method required for financial reporting purposes. For funding purposes, Minnesota law requires investment gains and losses to be recognized over a five-year period to “smooth” the volatility that can occur from year to year. For GASB financial reporting purposes, assets are valued at market value as of the end of the fiscal year.

The GASB 68 standard set forth standards that modified the accounting and financial reporting of the State’s pension obligations. The new standard for governments that provide employee pension benefits requires the State to report in its financial statements the State’s proportionate share of the NPL. The State’s proportionate share includes both the share of the NPL associated with the State’s employees contributing into the retirement plans as well as the State’s share of contributions to PERA for the former Minneapolis Employees Retirement Fund (“MERF”) and for the Public Employees Police and Fire Fund (“PEPFF”), to TRA for the former Duluth Teachers Retirement Fund Association (“DTRFA”) and for the former Minneapolis Teachers Retirement Fund Association (“MTRFA”), and to SPTRFA as the State’s relationship to these plans meets the GAAP definition of a special funding situation.

Additionally, the GASB 67 standard required under certain circumstances the recognition of additional liabilities associated with pensions over previously reported. The rate used by the new standard to discount projected benefit payments to their present value was based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for the use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a “crossover date.” The new standard was effective for the State in Fiscal Year 2015, although MSRS adopted GASB 67 beginning in Fiscal Year 2014.

The GASB 71 standard objective is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning NPL. The provisions of this standard were required to be applied simultaneously with the provisions of Statement 68.

These annual comprehensive financial reports for the Fiscal Year ended June 30, 2021, are available from the following public web sites:

MSRS: <https://www.msrs.state.mn.us/annual-reports-fy-2021>

PERA: <https://mnpera.org/annual-comprehensive-financial-report/>

TRA: <https://minnesotatra.org/financial/annual-reports/>

The Systems' actuarial reports for the Fiscal Year ended June 30, 2021, are available from the following public web sites:

MSRS: <https://www.msrs.state.mn.us/annual-reports-fy-2021>

PERA: <https://mnpera.org/financial/actuarial-valuations/>

TRA: <https://minnesotatra.org/financial/annual-reports/>

Please note these website addresses are provided for the convenience of the reader. No representation is made by the State as to the privacy practices of other websites, nor is the State liable for the content or availability of any listed sites.

For additional information on the State's pension systems, refer to Note 8 – Pension and Investment Trust Funds (pages F-92 through F-111) and Required Supplementary Information (pages F-160 through F-174) in the State Financial Statements in APPENDIX F. Pension disclosures in the State's Financial Statements differ from the Retirement Systems' financial statements. The State's Financial Statements disclosures only include the State's proportionate share and there is a one year lag in the disclosures statements in State's Financial Statements compared to the Systems' Annual Comprehensive Financial Reports.

See "Pension Obligation Reporting: GASB Statements 67 and 68" and "*MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results*" in this APPENDIX B for GASB 67 reporting information.

Overview – MSRS

MSRS provides retirement coverage for 56,637 active employees, 51,030 retirees, disabilitants, and beneficiaries, and 29,526 members who no longer contribute, but are eligible for future monthly benefits or a refund of their contributions, as of June 30, 2021. These members participate in five unique defined benefit retirement funds. The largest funds include the State Employees Retirement Fund, Correctional Employees Retirement Fund and State Patrol Retirement Fund, which represents 99.0 percent of total assets for MSRS' defined benefit funds.

MSRS administration is governed by an 11-member board of directors. The board includes four members elected by the membership at large of the General Employees and Unclassified Employees Retirement Plans, one elected State Patrol Retirement Plan member, one elected Correctional Employees Retirement Plan member, one elected retired member, one designated representative for employees of Metropolitan Council's Transit division, and three members appointed by the State Governor, one of which must be a constitutional officer or an appointed State official. The board appoints an executive director who administers the plans in accordance with Minnesota law and board policies, and directs the daily operational activities of MSRS.

The State Employees Retirement Fund includes the General Employees Retirement Plan, a multiple-employer, cost-sharing plan, the State Fire Marshals Plan, the Military Affairs Plan, and the Transportation Pilots Plan. The General Employees Retirement Plan is the largest retirement plan that MSRS administers. It covers most state employees, civil service employees of the University of Minnesota, and employees of the Metropolitan Council. The State Fire Marshals Plan covers employees of the State Fire Marshals Division employed as deputy State fire marshal fire/arson investigators. Only certain employees of the Departments of Military Affairs and Transportation are eligible to be members of the Military Affairs and Transportation Pilots Plans, but all State employees who are not members of another plan are covered by the General Employees Retirement Plan.

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single-employer plan. Membership is limited to those State employees who are State troopers, conservation officers, crime-bureau officers or gambling-enforcement agents.

The Correctional Employees Retirement Fund includes only the Correctional Employees Plan, a multiple employer cost-sharing plan. Membership is limited to those State employees in covered correctional service, including employees with 75 percent working time spent in direct contact with inmates or patients at Minnesota correctional facilities, the State operated forensics services program, or the Minnesota Sex Offender Program.

The Judges Retirement Fund includes only the Judges Retirement Plan, a single-employer plan. Active membership is limited to a judge or justice of any State court.

The Legislators Retirement Fund is funded on a pay-as-you-go basis with direct appropriations from the State's General Fund. Effective July 1, 2013, this fund includes the Legislators Retirement Plan and the Elective State Officers Retirement Plan. Each plan is a single-employer plan and closed to new membership. The Legislators Retirement Plan includes members of the Minnesota House of Representatives and Senate first elected to office before July 1, 1997, who elected to retain coverage under this plan. The Elective State Officers Plan includes only the constitutional officers first elected prior to July 1, 1997, who elected to retain coverage under this plan.

Membership statistics for each of the MSRS funds, as of June 30, 2021, follow:

| | State Employees Retirement Fund | State Patrol Retirement Fund | Correctional Employees Retirement Fund | Judges Retirement Fund | Legislators Retirement Fund | Totals |
|---------------------------|---------------------------------|------------------------------|--|------------------------|-----------------------------|------------------------|
| Benefit Recipients: | | | | | | |
| Retirees | 39,335 | 895 | 3,127 | 303 | 272 | 43,932 |
| Beneficiaries | 4,357 | 154 | 276 | 75 | 85 | 4,947 |
| Disabilitants | 1,738 | 72 | 325 | 16 | 0 | 2,151 |
| Terminated members: | | | | | | |
| Vested, no benefits | 17,317 | 69 | 1,428 | 19 | 27 | 18,860 |
| Non-Vested | 9,562 | 36 | 1,068 | 0 | 0 | 10,666 |
| Active members: | | | | | | |
| Vested | 34,718 | 644 | 3,078 | 283 | 12 | 38,735 |
| Non-Vested | 16,171 | 268 | 1,426 | 37 | 0 | 17,902 |
| Total Membership | 123,198 | 2,138 | 10,728 | 733 | 396 | 137,193 |
| <i>Annualized Payroll</i> | <i>\$3,325,417,000</i> | <i>\$88,351,000</i> | <i>\$282,667,000</i> | <i>\$52,960,000</i> | <i>\$856,000</i> | <i>\$3,750,251,000</i> |

MSRS also administers four defined contribution funds. These funds include the Unclassified Employees Retirement Fund, the Health Care Savings Fund, the Deferred Compensation Fund (an Internal Revenue Code Section 457 plan), and the Hennepin County Supplemental Retirement Fund. Net Assets as of June 30, 2021, for the defined contribution funds total \$11,875,075,000.

Overview – PERA

PERA administers four separate defined benefit pension funds (including one multi-employer agent plan) and one defined contribution plan. Each has specific membership, contribution, benefit, and pension provisions. As of June 30, 2021, PERA's three multi-employer, cost-sharing, defined benefit plans cover 164,754 members currently employed and earning benefits; 155,857 members who no longer work in PERA-covered positions but who are eligible for future benefits or a refund of their contributions from PERA; and 125,460 persons currently receiving benefits. These three plans represent 99.4% of PERA's defined benefit plan assets. In addition, PERA's multi-employer agent defined benefit plan for volunteer firefighters covers 4,007 active members, 1,032 members eligible for future benefits and 140 persons currently receiving benefits. In most cases, benefits from the volunteer firefighter plan are paid in a lump-sum at retirement. PERA members are employed by more than 2,100 governmental entities including cities, counties, townships, and school districts throughout the State.

The PERA board of trustees is responsible for administering these funds in accordance with statutes passed by the Legislature and has a fiduciary obligation to PERA’s members, the governmental employers, the State, and its taxpayers. The PERA board of trustees is composed of 11 members. The State Auditor is a member by statute. Five trustees are appointed by the Governor. Serving four-year terms, these five trustees represent cities, counties, school boards, retired annuitants, and the general public, respectively.

The remaining five board members are elected by the PERA membership at large to serve four-year terms. Three represent the general active membership, one trustee represents Police and Fire Fund members, and one trustee represents annuitants and benefit recipients.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operation of the association.

The General Employees Retirement Fund (“GERF”) encompasses two plans: the PERA Coordinated Plan and the PERA Basic Plan. The Coordinated Plan, created in 1968, provides retirement and other benefits in addition to those supplied by Social Security. The Basic Plan established in 1931, is not coordinated with the federal program and was closed to new members on December 31, 1967. Prior to January 2015, a separate defined benefit plan with 3,600 retirees, 29 active members and 37 deferred members known as the Minneapolis Employees Retirement Fund (“MERF”) was separately accounted for within the General Employees Retirement Fund. All of the active members are eligible to retire. Employers participating in MERF include the City of Minneapolis, Minneapolis Schools, Metropolitan Airports Commission, Hennepin County, Minnesota State Colleges and Universities, Metropolitan Council, and the Municipal Building Commission. MERF was fully merged into the GERF in January 2015, but the State has an ongoing financial obligation to PERA to assist in funding the former MERF liability.

The Public Employees Police and Fire Fund (“PEPFF”) originally established in 1959 for police officers and firefighters not covered by a local relief association, now encompasses all Minnesota police officers and firefighters hired since 1980. As of July 1, 1999, this fund also includes the members of 44 previously local police and fire relief associations that elected to have PERA administer their plan.

The Local Government Correctional Service Retirement Fund (called the “Public Employees Correctional Fund” or “PECF”) was created in 1999 to cover local government correctional service employees who spend most of their time in direct contact with inmates. The majority of these employees were formerly part of the Coordinated Plan.

Membership statistics for each of the funds, as of June 30, 2021, follow:

| | General Employees Retirement Fund (GERF) | Public Employees Police & Fire Fund (PEPFF) | Public Employees Correctional Fund (PECF) | Totals |
|----------------------------|---|--|--|------------------------|
| Benefit Recipients: | | | | |
| Retirees | 99,441 | 8,021 | 1,277 | 108,739 |
| Beneficiaries | 9,214 | 1,951 | 79 | 11,244 |
| Disabilitants | 3,577 | 1,684 | 216 | 5,477 |
| | | | | |
| Terminated Members: | | | | |
| Vested, no benefits | 66,048 | 1,813 | 3,832 | 71,693 |
| Non Vested | 81,052 | 912 | 2,200 | 84,164 |
| | | | | |
| Active Members: | | | | |
| Vested | 91,971 | 8,733 | 2,098 | 102,802 |
| Non Vested | 57,310 | 2,972 | 1,690 | 61,972 |
| | | | | |
| Total Membership | 408,613 | 26,086 | 11,392 | 446,091 |
| <i>Annualized Payroll</i> | <i>\$6,761,354,000</i> | <i>\$1,096,195,000</i> | <i>\$222,093,000</i> | <i>\$8,079,642,000</i> |

PERA also administers the Volunteer Firefighter Retirement Fund, a multi-employer, agent plan and the Public Employees Defined Contribution Plan, which was established by the Minnesota Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services. The defined contribution plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs.

Overview – TRA

TRA had 609 reporting employer units, 81,821 active members and a total of 69,033 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2021.

Teachers, and others designated by statute, employed in Minnesota’s public elementary and secondary schools, charter schools and certain educational institutions maintained by the State (except those teachers employed by the Saint Paul Public Schools, and by the University of Minnesota system) are required to be TRA members. Teachers employed by the Minnesota State Colleges and Universities may elect TRA coverage. Former members of MTRFA and DTRFA were merged into TRA through legislative action. MTRFA was merged with TRA in 2006 and DTRFA was merged in 2015.

TRA is managed by an eight member board of trustees: three are statutorily appointed and five are elected. The appointed trustees are the Commissioner of Education, the Commissioner of Management and Budget and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the board of trustees.

Membership statistics for the fund, as of June 30, 2021, follow:

| | |
|----------------------------|------------------------|
| Benefit Recipients: | |
| Retirees | 62,367 |
| Disabilitants | 446 |
| Beneficiaries | 6,220 |
| | |
| Terminated Members: | |
| Vested, deferred | 17,300 |
| Non Vested | 38,717 |
| | |
| | |
| Active Members: | |
| Vested | 67,978 |
| Non Vested | 13,843 |
| | |
| Total Membership | 206,871 |
| | |
| <i>Annualized Payroll</i> | <i>\$5,326,108,000</i> |

Investments

Assets of the pension funds are invested by the Minnesota State Board of Investment (“SBI”). SBI prepares and publishes an annual financial report including financial statements and required supplementary information. The information that is contained under the headers “Investments,” “Asset Allocation” and “Investment Results” is provided by SBI.

SBI is established by Article XI of the Minnesota Constitution to invest all State funds. The Governor (who is designated as chair of the SBI), State Auditor, Secretary of State and Attorney General are members. All investments undertaken by SBI are governed by the “prudent person rule” and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

The prudent person rule, as codified in Minnesota Statutes, Section 11A.09, requires all members of the SBI, its Investment Advisory Council (as discussed below), and SBI staff to “...act in good faith and ...exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their

capital as well as the probable income to be derived therefrom.” Minnesota Statutes, Section 356A.04 contains similar codification of the prudent person rule applicable to the investment of pension fund assets.

In addition to the prudent person rule, Minnesota Statutes, Section 11A.24, contains a specific list of asset classes available for investment including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

A 17-member Investment Advisory Council, ten members of which must be experienced in general investment matters, advise the SBI on investment policy. The Commissioner of Management and Budget, and the three executive directors of the Retirement Systems also serve as members, as do one retiree and two active employee members. Also, investment consultants are hired to monitor and evaluate investment performance of the investment firms hired by the SBI. Within the requirements defined by State law, the SBI, in conjunction with SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. The SBI, its staff and the Investment Advisory Council have conducted detailed analyses that address investment objectives, asset allocation policy and management structure of each of the funds under SBI’s control. The studies guide the ongoing management of these funds and are updated periodically.

The individual pension plans invest in investment pools administered by SBI. The pools function much like mutual funds, with the pension plans purchasing “units” of the pools rather than purchasing individual securities. The Combined Funds represent the assets for both the active and retired public employees in the statewide retirement plans which are administered by the Retirement Systems. The Combined Funds covers active and retired employees and had a market value of \$89.5 billion, as of June 30, 2021. The Combined Funds market value was \$81.32 billion, as of June 30, 2022 (unaudited).

Assumed Return

Employee and employer contribution rates are specified in State statute as a percentage of an employee’s salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, Minnesota Statutes specify the annual investment return the retirement fund assets are assumed to earn. The 2012 Legislature modified the investment earnings assumption to a “select and ultimate” method, effective for the July 1, 2013 actuarial valuation report. At that time, the “select” annualized assumed investment return was 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and the “ultimate” annualized assumed investment return rate was 8.5 percent for Fiscal Year 2018 and years thereafter, with the exception of the Legislators and Elective State Officers Retirement Funds, which changed from 8.5 percent to 0 percent for all years. The 2015 Legislature reduced the annualized assumed investment return from 8.5 percent to 8.0 percent for MSRS, PERA, and SPTRFA for Fiscal Year 2016 and years thereafter; however, TRA was statutorily required to continue to use the “select and ultimate” method. (For additional information on the select and ultimate method and recent legislative changes, see “Pension Legislation and Litigation” in this APPENDIX B.) The 2018 Legislature reduced the annualized assumed investment return to 7.5 percent for MSRS, PERA, TRA, and SPTRFA beginning Fiscal Year 2018 and years thereafter. Normally, pension assets will accumulate in the Combined Funds for 30 to 40 years during an employee’s years of active service. A typical retiree can be expected to draw benefits for an additional 15 to 20 years or longer. This provides the Combined Funds with a long investment time horizon and permits the SBI to take advantage of the return opportunities offered by common stocks and other equity investments in order to meet the annualized assumed investment return. In Fiscal Year 2021, the 7.5 percent discount rate required by statute deviated from GASB reporting for all three retirement systems in Minnesota. For GASB purposes MSRS and PERA utilized a 6.5 percent discount rate while TRA utilized a 7.0 discount rate. See “Retirement Systems Funding” in this APPENDIX B for additional information regarding statutory and financial reporting discount rates.

Asset Allocation

The allocation of assets among stocks, bonds, alternative investments and cash has a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. The asset allocation of the Combined Funds is reviewed periodically. SBI has chosen to incorporate a large commitment to common stocks in the asset allocation policy for the retirement funds. In order to limit the short run volatility of returns exhibited by common stocks, the SBI includes other asset classes such as bonds, real estate, and resource investments in the total portfolio. This diversification is intended to reduce wide fluctuations in investment returns on a year to year basis without impairing the funds’ ability to meet or exceed the annualized assumed investment return over the long-term. The Combined Funds has an asset allocation policy based on the investment objectives of the Combined Funds and the expected long-term performance of the capital markets. At the September 2017 SBI meeting, an increase in the Private Markets target allocation from 20 to 25% was approved. Domestic and International Stocks

were combined under a new reporting name called Public Equity—with a target allocation of 67% to domestic and 33% to international. In addition, a strategic allocation category framework was adopted. The transition to this framework was complete by June 30, 2019. At its May 2020 meeting, the SBI approved additional asset allocation policy changes to the Fixed Income category for enhanced liquidity management. The changes modified the target allocation to 25% (consisting of the current 20% allocation to Core Bonds and Treasuries, the current 2% allocation to Cash, and a transfer of 3% from Public Equities), and additionally sought structural changes to balance Treasuries with return seeking bond allocation. SBI staff transitioned to this new policy framework throughout Fiscal Year 2021.

The target allocation to each asset class as of June 2022 was as follows:

| | |
|-------------------------------------|-----|
| Total Public Equity | 50% |
| <i>Domestic Stocks – 33.5%</i> | |
| <i>International Stocks – 16.5%</i> | |
| Total Fixed Income | 25% |
| <i>Core Bonds – 10%</i> | |
| <i>Treasuries – 10%</i> | |
| <i>Cash – 5%</i> | |
| Private Markets | 25% |

SBI’s asset rebalancing policy is as follows: When actual asset allocation deviates 5 percent to 10 percent from the target, rebalancing is at the discretion of SBI. If the actual allocation deviates 10 percent or more from the target, assets must be redistributed to achieve long-term allocation targets. (For example, the target allocation for Fixed Income is 25 percent of the fund. A 5 percent deviation would equal 1.25 percent). The uncommitted allocation in Private Markets is invested in Public Equity within the Private Markets allocation. The SBI recognizes that in some market situations the allocation to Private Markets may exceed 25 percent but may not exceed 30 percent. An increase to the maximum allowable allocation to Private Markets from 25 to 30 percent was approved at the September 2017 SBI meeting.

The following table represents the actual asset allocation and the market value for the Combined Funds as of June 30, 2021 and June 30, 2022 (unaudited).

COMBINED FUNDS INVESTMENTS
PERIODS ENDING JUNE 30, 2021 AND JUNE 30, 2022 (UNAUDITED)
(\$’s in Millions)

| | Target Allocation as of June 30, 2021 | Actual Mix 6/30/2021 | Market Value 6/30/2021⁽¹⁾ | Target Allocation as of June 30, 2022 | Actual Mix 6/30/2022 (unaudited) | Market Value 6/30/2022⁽¹⁾ (unaudited) |
|--|--|-----------------------------|---|--|---|---|
| Public Equities | 50% | 50.05% | \$44,792 | 50% | 48.81% | \$39,693 |
| Total Fixed Income | 25 | 24.19 | 21,735 | 25 | 24.82 | 20,183 |
| Private Markets | 25 | 25.76 | 22,967 | 25 | 26.37 | 21,444 |
| <i>Invested Private Markets</i> | | 17.46 | 15,533 | | 25.15 | 20,455 |
| <i>Uninvested Allocation Invested in Public Equities</i> | | 8.31 | 7,434 | | 1.22 | 989 |
| Total | 100% | 100% | \$89,494 | 100% | 100 % | \$81,320 |

⁽¹⁾ Market value based on fair value as defined in GASB 31.

Source: SBI Quarterly Board Book Performance and SBI staff, periods ended June 30, 2021, and June 30, 2022 (unaudited).

Investment Results

All assets in the Combined Funds are managed externally by investment management firms retained by contract. Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date. The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the State’s master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts.

The rate of return in the Combined Funds was 30.3 percent for the Fiscal Year ending June 30, 2021. The rate of return in the Combined Funds was approximately negative 6.4 percent for the one-year period that began on July 1, 2021 and ended June 30, 2022 (unaudited). Over a 10-year period, the Combined Funds are expected to outperform a composite market index weighted in a manner that reflects the long-term asset allocation over the latest 10-year period.

| | | <i>Period Ending June 30, 2021</i> | | | | | | | | | |
|-----------------------|--|--|-------------|-------------|-------------|-------------|--------------|--------------|---------------|---------------|---------------|
| | | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>3 Yr.</u> | <u>5 Yr.</u> | <u>10 Yr.</u> | <u>20 Yr.</u> | <u>30 Yr.</u> |
| Combined Funds | | 15.1% | 10.3% | 7.3% | 4.2% | 30.3% | 13.4% | 13.1% | 10.4% | 8.1% | 9.3% |
| Composite Index | | 14.4% | 9.7% | 7.6% | 4.0% | 28.8% | 13.0% | 12.6% | 10.1% | 7.9% | 9.0% |
| | | <i>Period Ending June 30, 2022 (unaudited)</i> | | | | | | | | | |
| | | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>3 Yr.</u> | <u>5 Yr.</u> | <u>10 Yr.</u> | <u>20 Yr.</u> | <u>30 Yr.</u> |
| Combined Funds | | 10.3% | 7.3% | 4.2% | 30.3% | -6.4% | 8.3% | 8.5% | 9.4% | 8.2% | 8.6% |
| Composite Index | | 9.7% | 7.6% | 4.0% | 28.8% | -6.3% | 7.9% | 8.2% | 9.0% | 8.0% | 8.4% |

Source: SBI Quarterly Board Book for the periods ended June 30, 2021 and June 30, 2022 (unaudited).

Actual Combined Funds returns relative to the total fund composite index are shown above. For the 10-year period ending June 30, 2022 (unaudited), the Combined Funds outperformed the composite index by 0.4 percent points. For the 20-year period ending June 30, 2022 (unaudited), the Combined Funds outperformed the composite index by 0.2 percent points. The annualized rate of return was 8.6 percent for the past 30-year period ending June 30, 2022 (unaudited).

Comparing the Actual Combined Funds returns relative to the 7.5 percent annualized investment return assumption enacted by the 2018 Legislature, for the period ended June 30, 2022 (unaudited), the Actual Combined Funds return exceeded the annualized investment return assumption for the most recent 3-year, 5-year, 10-year, 20-year and 30-year periods.

Fiscal Year 2021 Contribution Summary

As mentioned above, the State is the primary contributing employer for MSRS and is a very small contributing employer for the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to PERA, TRA and certain local governments to assist with public pension funding obligations, as described herein. In addition, the State appropriates general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans. Provided below is a table summarizing the Retirement Systems, including: the types of pension plans (e.g., defined benefit, defined contribution, etc.), whether the State contributes to the pension plan as an employer or otherwise, and the State's FY 2021 employer contributions to the various plans.

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MINNESOTA RETIREMENT SYSTEMS – STATE PARTICIPATION AND CONTRIBUTION SUMMARY
(Defined Benefit Plans in Bold)
(\$'s in Thousands)

| Minnesota State Retirement Systems (MSRS) | | | | |
|---|--|-------------------------------------|--|---|
| Plans Covered | Type | State Employer Participation | State Provides Other Non-Employer Contributions | FY 2021 State Pension Employer Contributions⁽¹⁾ |
| State Employees Retirement Fund | Multiple employer, cost-sharing plans | Yes ⁽²⁾ | No | \$ 205,167 |
| Correctional Employees Retirement Fund | Multiple employer, cost-sharing plans | Yes | No | \$48,791 |
| Judges Retirement Fund | Single employer, State plan | Yes | No | \$11,916 |
| Legislators Retirement Fund⁽³⁾ | Single employer, State plan | Yes | No | \$0 |
| State Patrol Retirement Fund | Single employer, State plan | Yes | No | \$24,809 |
| Unclassified Employees Retirement Fund | Defined Contribution | Yes | No | \$7,457 |
| Postretirement Healthcare Benefits Fund | Defined Contribution | N/A | N/A | N/A |
| State Deferred Compensation Fund | Defined Contribution | N/A | N/A | N/A |
| Hennepin County Suppl. Retirement Fund | Defined Contribution | N/A | N/A | N/A |
| Public Employees Retirement Association (PERA) | | | | |
| Plans Covered | Type | State Employer Participation | State Provides Other Non-Employer Contributions | FY 2021 State Pension Employer Contributions⁽¹⁾ |
| General Employees Retirement Fund | Multiple employer, cost-sharing plan | Yes ⁽⁴⁾ | Yes | \$3,232 |
| Public Employees Police and Fire Fund | Multiple employer, cost-sharing plan | No | Yes ⁽⁴⁾ | \$0 |
| Public Employees Correctional Fund | Multiple employer, cost-sharing plan | No | No | \$0 |
| Volunteer Firefighter Retirement Fund | Multiple employer, agent plan | N/A | Yes ⁽⁴⁾ | N/A |
| Defined Contribution Fund | Defined Contribution | N/A | N/A | N/A |
| Teachers Retirement Association (TRA) | | | | |
| Plans Covered | Type | State Employer Participation | State Provides Other Non-Employer Contributions | FY 2021 State Pension Employer Contributions⁽¹⁾ |
| Teachers Retirement Fund | Multiple employer, cost-sharing plan | Yes ⁽⁵⁾ | Yes ⁽⁵⁾ | \$16,771 ⁽⁵⁾ |

⁽¹⁾ Includes: State contributions made as an employer. Employer contributions are made from a variety of State funds, including the General Fund. State contributions made as direct aid can be found in the table “STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES DIRECT AID TO PENSION FUNDS” and contributions for local aid in the table “STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, PENSION RELATED LOCAL GOVERNMENT AID.”

⁽²⁾ The State is a primary employer for the State Employees Retirement Fund.

⁽³⁾ Effective July 1, 2013, the Elective State Officers Retirement Fund was merged into the Legislators Retirement Fund.

⁽⁴⁾ The State only makes employer contributions to PERA for covered individuals employed by PERA, and a small number of employees from Minnesota State Colleges and Universities, the Public Defense Board, and Department of Military Affairs who had previously been admitted into the plan.

⁽⁵⁾ The State only makes employer contributions to TRA for Minnesota State Colleges and Universities faculty members who have elected TRA, Perpich Center for Arts Education employees, certain Department of Education employees formerly covered by TRA and Minnesota State Academies employees. This figure also includes employer contributions for covered individuals employed by TRA.

Source: MSRS, Annual Comprehensive Financial Report, Fiscal Year ended June 30, 2021; PERA, Schedule Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only, Fiscal Year ended June 30, 2021; TRA, Schedule of Employer and Non-Employer Allocations, Fiscal Year ended June 30, 2021.

Statutory Funding Requirements

Minnesota’s defined benefit retirement plans are financed in several ways, including employee contributions, contributions from State agencies for their covered employees, contributions from local political subdivisions, and direct State appropriations. For substantially all of the defined benefit plans, both the employee and employer make a contribution to the plan based on a percentage of the plan member’s salary. Each fund’s financing requirement is determined by a specific formula established in State law. The statutory funding formulas are not always consistent with the calculated actuarial requirements as described herein. No assurance can be provided that the formulas will not

change in the future. Provided below are the existing formulas for the Retirement System's Plans and the local defined benefit plans that are governed by State statutes:

MSRS: MSRS consists of the assets of nine pension funds, five of which encompass defined-benefit plans, in which the State participates as an employer or otherwise provides general government contributions. For each of the defined benefit plans¹ in MSRS (except for Legislators Retirement Plan), both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute. Beginning Fiscal Year 2014, supplemental State aid of \$1 million is paid annually to the State Patrol Retirement Fund until the earlier of both the PERA Public Employees Police and Fire Fund and the MSRS State Patrol Retirement Fund becoming 90 percent funded on an actuarial value of assets basis or July 1, 2048. A supplemental state aid of \$3 million was paid to the Judges Retirement Fund in Fiscal Year 2017, which increased to \$6 million annually beginning in Fiscal Year 2018. This aid continues until the earlier of the Judges Retirement Fund becoming 100 percent funded on an actuarial value of assets basis or July 1, 2048. The Legislators Retirement Plan is funded on a pay-as-you-go basis from the State's General Fund as all assets have been depleted. This Plan also receives annual General Fund appropriations to finance retirement benefits for all members of the Elective State Officer Plan, which merged into the Legislators Fund effective July 1, 2013. See the table "MINNESOTA STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION HISTORY" in this APPENDIX B.

PERA: PERA consists of the assets of five pension funds. Three of the funds are defined-benefit, multiple-employer, cost-sharing funds. One fund is a defined-benefit, multiple-employer, agent fund. One fund is a Defined Contribution fund. The State only makes employer contributions to PERA for covered individuals employed by PERA, and a small number of employees from Minnesota State Colleges and Universities, the Public Defense Board, and Department of Military Affairs were previously admitted to the plan. For each of the defined benefit funds in PERA (except as noted below), both the employee and employer make a contribution to the plan based on a percentage of the plan member's salary. The contribution percentage is specified in statute. The State also provides direct aid to PERA funds as well as pension-related local government aid, which is detailed under the "State Direct Aid to Pension Funds and Pension Related Local Government Aid" header below.

TRA: The State only makes employer contributions to TRA for covered individuals employed by TRA, Minnesota State Colleges and Universities faculty members who have elected TRA, Perpich Center for Arts Education employees, certain Department of Education employees formerly covered by TRA and Minnesota State Academies employees. The State provides certain general government contributions to TRA for actuarial liabilities assumed by the consolidation in 2006 of the former MTRFA and by the consolidation in 2015 of the former DTRFA.

State Direct Aid to Pension Funds and Pension Related Local Government Aid

MERF: MERF, the former Minneapolis Employees Retirement Fund, was a separate entity until June 30, 2010, when it was consolidated under PERA's administration. It was fully merged into the GERF in January 2015. As a result of 2015 legislative action, the annual member and employer contributions are each set at 9.75 percent of the salary of the employee. Additionally, the supplemental contribution made by MERF employers (mainly the City of Minneapolis) is \$31 million for each of calendar years 2015 and 2016 and \$21 million each year thereafter through calendar year 2031. The State's statutory annual aid payment is \$6 million in Fiscal Years 2016 and 2017, and \$16 million in Fiscal Year 2018 and each year thereafter through Fiscal Year 2032. See the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, DIRECT AID TO PENSION FUNDS" in this APPENDIX B.

Police and Fire Amortization Aid: This aid program is specified in statute. As originally designed, it funded the State's share of amortizing unfunded liabilities of local police or fire relief associations that were being merged into PERA. In more recent years, part of the money has been redirected to the former MTRFA and the former DTRFA (now both part of TRA) and SPTRFA. The remaining aid after the local police or fire relief is distributed is allocated to TRA (70%) and SPTRFA (30%). An additional supplemental appropriation was established beginning Fiscal Year 2014 that provides \$9 million annually directly to the PERA Public Employees Police and Fire Fund and \$1 million directly to the MSRS State Patrol Retirement Fund until the earlier of (a) both the PERA Public Employees Police and Fire Fund and the MSRS State Patrol Retirement Fund becoming 90 percent funded on an actuarial value of assets basis or (b) July 1, 2048. The supplemental appropriation established beginning Fiscal Year 2014 also slightly increases the aid that is provided to local police or fire relief associations. The State also provides supplemental benefit reimbursement aid to

¹One of the funds, the State Employees Retirement Fund, includes four separate plans, the General State Employees Plan (which is the largest plan of the State Employees Retirement Fund), and plans for three separate groups: Minnesota Department of Transportation pilots, deputy State fire marshals, and Military Affairs personnel.

help support retirement pensions for local volunteer fire fighters. See the table “STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, PENSION RELATED LOCAL GOVERNMENT AID” in this APPENDIX B.

TRA: The State provides certain general government contributions to TRA for actuarial liabilities assumed by the consolidation in 2006 of the former MTRFA and of the consolidation in 2015 of the former DTRFA. See the table “STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, DIRECT AID TO PENSION FUNDS” in this APPENDIX B.

Local Defined Benefit Retirement Systems Governed by State Statutes: For SPTRFA and the former DTRFA (prior to July 1, 2015), both the employee and employer make a contribution to the plan based on a percentage of the plan member’s salary. The contribution percentage is specified in statute. The State also contributes to certain local police and fire associations. See the tables “STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, PENSION RELATED LOCAL GOVERNMENT AID” and “STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, DIRECT AID TO PENSION FUNDS” in this APPENDIX B.

MSRS Elective State Officers Retirement Fund and Legislators Retirement Fund: The Elective State Officers Retirement Fund and the Legislators Retirement Fund were closed to elective state officers and legislators first elected after July 1, 1997. As a result, benefits for members covered by plans in these funds are financed on a pay-as-you-go basis from the State’s General Fund. Effective July 1, 2013, the Elective State Officers Retirement Fund was consolidated into the Legislators Retirement Fund.

MSRS Judges Retirement Fund: In addition to required employer contributions, the State provides direct appropriations annually to the Judges Retirement Fund. The 2016 Legislature appropriated \$3 million in Fiscal Year 2017 and \$6 million in Fiscal Year 2018 and each year thereafter. This appropriation continues until the earlier of (a) the Judges Retirement Fund becoming 100 percent funded on an actuarial value of assets basis or (b) July 1, 2048.

2018 Omnibus Retirement Act: As a component of a comprehensive set of reforms intended to improve the funding status of Minnesota’s public pension funds, the 2018 Legislature provided direct aid to the PERA Public Employees Police and Fire Fund totaling \$4.5 million annually in Fiscal Years 2019 and 2020, and \$9 million annually each year thereafter, and to the SPTRFA totaling \$5 million annually beginning in Fiscal Year 2019. The act specifies that these direct aids end the earlier of (a) the respective fund becoming 100 percent funded on an actuarial value of assets basis or (b) July 1, 2048. For more information about the 2018 Omnibus Retirement Act, see “2018 Omnibus Retirement Act” in this APPENDIX B.

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STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES
DIRECT AID TO PENSION FUNDS
(\$'s in Thousands)

| Fiscal Year Ended June 30th | (Former) Minneapolis Employees Retirement Fund (MERF) ⁽¹⁾ | TRA/ MTRFA & DTRFA ⁽²⁾ | St. Paul Teachers Retirement Fund (SPTRFA) ⁽³⁾ | Duluth Teachers Retirement Fund (DTRFA) ⁽⁴⁾ | TRA/ DTRFA ⁽⁴⁾ | MSRS Elective State Officers Retirement Fund ⁽⁵⁾ | MSRS Legislators Retirement Fund ⁽⁶⁾ | MSRS Judges Retirement Fund (JRF) | PERA Public Employees Police and Fire Fund (PEPFF) | Total |
|-----------------------------|--|-----------------------------------|---|--|---------------------------|---|---|-----------------------------------|--|----------|
| 2012 | \$22,750 | \$15,454 | \$2,827 | \$346 | \$- | \$459 | \$3,167 | \$- | \$- | \$45,003 |
| 2013 | 22,750 | 15,454 | 2,827 | 346 | - | 476 | 3,422 | - | - | 45,275 |
| 2014 | 24,000 | 15,454 | 9,827 | 6,346 | - | - | 3,891 | - | - | 59,518 |
| 2015 | 24,000 | 15,454 | 9,827 | 6,000 | 14,377 | - | 3,964 | - | - | 73,622 |
| 2016 | 6,000 | 29,831 | 9,827 | - | - | - | 5,177 | - | - | 50,835 |
| 2017 | 6,000 | 29,831 | 9,827 | - | - | - | 8,936 | 3,000 | - | 57,594 |
| 2018 | 16,000 | 29,831 | 9,827 | - | - | - | 8,961 | 6,000 | - | 70,619 |
| 2019 | 16,000 | 29,831 | 14,827 | - | - | - | 8,909 | 6,000 | 4,500 | 80,067 |
| 2020 | 16,000 | 29,831 | 14,827 | - | - | - | 8,850 | 6,000 | 4,500 | 80,008 |
| 2021 | 16,000 | 29,831 | 14,827 | - | - | - | 8,761 | 6,000 | 9,000 | 84,419 |
| *2022 | 16,000 | 29,831 | 14,827 | - | - | - | 8,721 | 6,000 | 9,000 | 84,379 |
| *2023 | 16,000 | 29,831 | 14,827 | - | - | - | 8,895 | 6,000 | 9,000 | 84,553 |
| *2024 | 16,000 | 29,831 | 14,827 | - | - | - | 9,073 | 6,000 | 9,000 | 84,731 |
| *2025 | 16,000 | 29,831 | 14,827 | - | - | - | 9,255 | 6,000 | 9,000 | 84,913 |

⁽¹⁾Effective July 1, 1998, the State contribution was provided on a formula basis and was capped at no more than \$9 million per fiscal year. In Fiscal Year 2012 and 2013, the annual State contribution increased to \$22.75 million annually and then to \$24 million annually in Fiscal Years 2014 and 2015. On July 1, 2010, MERF became an administrative division within PERA. The assets of MERF were fully merged into the GERF in January 2015. The State's annual aid payment was lowered to \$6.0 million in Fiscal Years 2016 and 2017, and was increased to \$16.0 million in Fiscal Year 2018 and thereafter. Under statute, these direct aid payments continue through Fiscal Year 2032.

⁽²⁾Beginning in FY 2016 direct aid is to be appropriated to TRA for the former DTRFA, following its merger with TRA, effective July 1, 2015. Under statute, these direct aid payments continue until the TRA plan is fully funded or July 1, 2048, whichever is earlier.

⁽³⁾The State has no direct custodial relationship with SPTRFA. Benefits, investment practices and contributions are, however, controlled by statute.

⁽⁴⁾The 2014 Legislature acted to merge DTRFA with the TRA, effective July 1, 2015. The Legislature also appropriated \$14.031 million in direct aid to TRA beginning in FY 2016 and transferred the \$346 thousand in direct aid for DTRFA to TRA in FY 2016. Prior to this date the plan was separate from TRA and the State had no direct custodial relationship. Under statute, these direct aid payments continue until the TRA Plan is fully funded or July 1, 2048, whichever is earlier.

⁽⁵⁾The Elective State Officers Retirement Fund was funded on a pay-as-you-go basis. It was merged into the Legislators Retirement Fund effective July 1, 2013.

⁽⁶⁾The Legislators Retirement Fund is funded on a pay-as-you-go basis. It includes members covered by the Legislators Retirement Plan as well as members of the Elective State Officers Retirement Plan following the July 1, 2013, merger of the Elective State Officers Retirement Fund.

* Projections for FY 2022-FY 2025 as of the end of the 2022 Legislative Session.
Source: MMB General Fund balance analysis

The following table summarizes State General Fund Appropriation pension aid provided to local governments during the last ten fiscal years and estimates for Fiscal Year 2022 through Fiscal Year 2025.

**STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES
PENSION RELATED LOCAL GOVERNMENT AID**

(\$'s in Thousands)

| Fiscal Year Ended June 30th | Basic Local Police and Fire Association⁽¹⁾ | Local Police and Fire Associations Amortization Aid | PERA Aid⁽²⁾ | Volunteer Firefighter Relief | Redirected Aid- SPTRFA /TRA | Police-Fire Retirement Supplemental Aid⁽³⁾ | Total |
|------------------------------------|--|--|-------------------------------|-------------------------------------|------------------------------------|--|--------------|
| 2012 | \$82,338 | \$1,255 | \$14,328 | \$671 | \$2,077 | \$- | \$100,669 |
| 2013 | 80,696 | 2,753 | 14,316 | 608 | - | - | 98,373 |
| 2014 | 89,572 | 2,729 | 14,187 | 558 | 2,094 | 15,498 | 124,638 |
| 2015 | 93,936 | 2,729 | 14,146 | 625 | 2,094 | 15,498 | 129,028 |
| 2016 | 98,468 | 2,729 | 14,090 | 531 | 2,094 | 15,498 | 133,410 |
| 2017 | 102,204 | 2,729 | 14,068 | 584 | 2,094 | 15,473 | 137,152 |
| 2018 | 105,252 | 2,729 | 14,065 | 629 | 2,094 | 15,498 | 140,267 |
| 2019 | 110,058 | 2,729 | 13,919 | 705 | 2,094 | 15,498 | 145,003 |
| 2020 | 115,461 | 2,729 | 13,900 | 606 | 2,094 | 15,495 | 150,285 |
| 2021 | 121,295 | 2,729 | 0 | 637 | 2,094 | 15,500 | 142,255 |
| *2022 | 121,776 | 2,729 | 0 | 637 | 2,094 | 15,500 | 142,736 |
| *2023 | 126,726 | 2,729 | 0 | 637 | 2,094 | 15,500 | 147,686 |
| *2024 | 131,793 | 2,729 | 0 | 634 | 2,094 | 15,500 | 152,750 |
| *2025 | 137,065 | 2,729 | 0 | 634 | 2,094 | 15,500 | 158,022 |

⁽¹⁾Basic local police and fire pension aid is an open General Fund appropriation based on the dedicated proceeds equivalent to at least 2 percent insurance premium tax on fire insurance and auto insurance, and a 2 percent surcharge on fire, lightning, and sprinkler leakage insurance.

⁽²⁾PERA Aid is paid directly to non-school units of local government to compensate these employer entities for employer contribution rate increases enacted in 1997 legislation for the PERA Basic and Coordinated Plans. Each employer's annual aid is calculated at 0.35 percent of the Fiscal Year 1997 covered payroll expenses for their employees covered by these plans. Employer entities no longer receive aid if they dissolve or privatize, and consolidations and changes in governmental subdivision boundaries will also reduce the number of employers receiving aid. The 1997 legislation requires PERA Aid be terminated effective June 30, 2020.

⁽³⁾Police and Fire Retirement Supplemental Aid payments are as follows: \$9 million to the PERA Public Employees Police & Fire Fund, \$5.5 million to Volunteer Firefighter plan employers and \$1 million to the MSRS State Patrol Retirement Fund.

* Projections for FY 2022-FY 2025 as of the end of the 2022 Legislative Session.
Source: MMB General Fund balance analysis

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Retirement Systems Funding

State law requires the Retirement Systems to “pre-fund” future benefit obligations. Rather than collecting only sufficient sums from current active workers to pay current retired members and beneficiaries, the Retirement Systems are required by statute to accumulate enough assets to cover all benefit liabilities of participating members. As a component of a comprehensive set of reforms intended to improve the funding status of Minnesota’s public pension funds, the 2018 Legislature extended the full funding date for each of the funds in the Retirement Systems, except the Legislators Retirement Fund, to June 30, 2048.

| <u>Retirement System</u> | <u>Fund</u> | <u>Statutory Funding Date as of the July 1, 2021, actuarial valuation</u> |
|--------------------------|--|---|
| MSRS | State Employees Retirement Fund | 2048 |
| | State Patrol Retirement Fund | 2048 |
| | Correctional Employees Retirement Fund | 2048 |
| | Judges Retirement Fund | 2048 |
| | Legislators Retirement Fund | 2026 |
| PERA | General Employees Retirement Fund | 2048 |
| | Public Employees Police and Fire Fund | 2048 |
| | Public Employees Correctional Fund | 2048 |
| TRA | Teachers Retirement Association Fund | 2048 |

To achieve full funding, contribution rates for the Retirement Systems’ pension funds are determined based upon current assets, future expected investment returns, current and projected liabilities based on the benefit provisions, demographics of the Retirement Systems’ membership, statutory actuarial assumptions and what annual contributions will be needed to have enough assets to match current and projected liabilities by the required full-funding date. Employee and employer contribution rates are specified in Minnesota Statutes as a percentage of an employee’s salary. The rates are set so that contributions plus expected investment earnings cover the projected cost of promised pension benefits and plan administrative expenses. In order to meet these projected costs, Minnesota Statutes specify the annual investment return the retirement fund assets are assumed to earn, as detailed in the “Assumed Return” section above.

The Legislature sets the contribution rates needed to fund the Retirement Systems’ pension funds by using the reports and advice of actuarial consultants. Each year an actuarial valuation report is completed to determine if a Retirement System’s contribution rates are meeting the funding requirements. If the contributions are not increased in Minnesota Statutes to match the funding requirements determined by the actuarial consultants, deficiencies are created and those deficiencies may become worse over time. The actuarial value of plan assets is smoothed over the most recent five-year period to reduce volatility of both the funding ratio and required contribution rates.

Every four years, the assumptions used to forecast funding requirements are tested against actual experience by the actuaries for the Retirement Systems. The factors considered include but are not limited to:

- Expected average investment earnings assumption
- Active member salary growth and total covered payroll growth
- Number and timing of members retiring
- Number and timing of employees leaving prior to retirement
- Number of employees opting for lump-sum of their employee contributions, thereby forfeiting future benefit
- Number of new members added
- Life expectancies of both active and retired members

The most recent four-year experience study for MSRS’ State Employees Retirement Fund covered the period July 1, 2014, through June 30, 2018, and was completed on June 27, 2019. Based on the results of this study, several changes in economic and demographic actuarial assumptions were recommended, including:

- decreasing the price inflation rate from 2.50 percent to 2.25 percent;
- decreasing the payroll growth rate from 3.25 percent to 3.0 percent;

- adjusting merit and seniority pay increase rates;
- changing base mortality rates from RP-2014 to PUB-2010 tables, with rates adjusted to better fit observed plan experience and with future improvement projected using scale MP-2018;
- adjusting retirement, disability, and withdrawal rates;
- minor changes to spouse age difference and form of payment assumptions;
- changing Minnesota Standards for Actuarial Work requirements related to projected payroll; and
- considering layered amortization as an alternative to the current 30-year closed period amortization policy.

Experience studies for MSRS' State Patrol, Correctional Employees, and Judges Retirement Funds for the period July 1, 2015 through June 30, 2019, were completed on June 30, 2020. Based on the results of these studies, several changes in economic and demographic actuarial assumptions were recommended, including:

- decreasing the price inflation rate from 2.50 percent to 2.25 percent;
- decreasing the payroll growth rate;
- adjusting assumed retirement ages;
- adjusting disability rates;
- adjusting merit and seniority pay increase rates;
- adjusting retirement and withdrawal rates;
- minor changes to spouse age difference, percent married, and form of payment assumptions; and
- changing base mortality rates from RP-2014 tables to PUB-2010 tables, with future improvement projected using scale MP-2019.

Any assumption changes require approval of the MSRS Board of Directors and LCPR. For MSRS' State Employees Retirement Fund, the MSRS Board approved the changes in the actuarial assumptions on September 19, 2019. Subsequently, on March 3, 2020, the LCPR adopted the same proposed changes in actuarial assumptions. For MSRS' State Patrol, Correctional Employees, and Judges Retirement Funds, the MSRS Board approved the changes in the actuarial assumptions on September 17, 2020. The LCPR adopted the same proposed changes in the actuarial assumptions on February 23, 2021.

The most recent actuarial experience study for PERA's GERF covered the period July 1, 2014, through June 30, 2018, and was completed in 2019. As a result of the study, several actuarial assumption changes were recommended. The most significant recommendation included a reduction in the assumed general inflation assumption and a reduction in the assumed rate of growth for covered employee payrolls. These changes were adopted by the PERA Board of Trustees at the August 8, 2019 board meeting and the LCPR approved the recommended changes at the March 3, 2020 meeting for implementation in the July 1, 2020 actuarial valuation.

PERA's actuaries completed experience studies for PEPFF on July 14, 2020 and for PECF on July 10, 2020, each covering the period from July 1, 2015 through June 30, 2019. Several assumption changes were recommended for PEPFF and PECF, including payroll growth, disability rates, price inflation and retirement rates. The LCPR approved the proposed assumption changes for both plans at its February 23, 2021 meeting, and the new assumptions were first reflected in the July 1, 2021 valuations.

The July 1, 2014 through June 30, 2018, actuarial experience study for TRA was completed in June 2019. The report contained only minor recommendations to three member demographic assumptions. The report did not recommend any modifications to the economic assumptions that had been recommended in the 2017 experience study and enacted by the 2018 Legislature. The modifications were passed by the LCPR on March 3, 2020 and were first included in the July 1, 2020 actuarial funding valuation report. The assumption change increased TRA's required contributions by 0.03 percent of active member covered payroll.

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Actuarial Valuation Requirements

State law regulates the administration of the pension funds. Minnesota Statutes require that the Retirement Systems must conduct an actuarial valuation as of the end of the fiscal year for all pension funds. Two valuation reports are prepared. One is the accounting valuation report in accordance with GASB Statements 67-68 and is used for financial reporting by the Retirement Systems, State of Minnesota and employer units of the systems. This report is not intended as a basis for funding decisions. For more information, see “Pension Obligation Reporting: GASB Statements 67 and 68” in this APPENDIX B.

The other valuation report is the funding valuation report in accordance with Minnesota Statutes. The purpose of the actuarial funding valuation is to calculate the actuarial accrued liability in each of the pension funds which estimates on the basis of demographic and economic assumptions the present value of benefits each of the pension funds will pay to its retired members and active members upon retirement. Independent actuaries provide annual actuarial valuations for each of the pension funds, performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an Unfunded Actuarial Accrued Liability (“UAAL”) of the applicable pension funds. An actuarial valuation will express the percentage that a pension fund is funded through a “Funding Ratio” which represents the quotient obtained by dividing the actuarial value of assets of the pension fund by the actuarial accrued liability of the pension fund. An actuarial valuation will also state an actuarially recommended contribution amount, which is a recommended amount that the State and other sponsoring employers contribute to the applicable pension fund. The actuarially recommended contribution consists of three components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members’ current year service, (2) an amortized portion of the UAAL, and (3) allowance for administrative expenses.

Description of Certain Statutory Actuarial Assumptions. To calculate the actuarial value of assets and actuarial accrued liability of each of the pension funds, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an annualized assumed investment return, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectancies of retirees and beneficiaries. If the experience of the pension fund is different from these assumptions, the UAAL of the pension fund may increase or decrease to the extent of any variances. Consequently, the calculated actuarially required contributions may be impacted.

In the case of the annualized assumed investment return, the actual rate of return on the pension funds depends on the performance of their respective investment portfolios. The investment portfolios of the respective pension funds can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one fiscal year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL.

The actuarial valuations of the pension funds use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the pension funds. For example, the pension funds use an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2021, the aggregate market value of all of the assets of the Retirement Systems, as determined by the Retirement Systems’ actuaries, was approximately \$89.636 billion. As of June 30, 2021, the aggregate actuarial value of all assets of the Retirement Systems was \$78.126 billion.

The following table provides a summary analysis of the funding status of the Retirement Systems and certain local defined benefit retirement plans where the State provides non-employer general government contributions governed by State statutes as of June 30, 2021, based on the respective annual actuarial valuation reports.

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STATUTORY METHOD
FUNDING STATUS OF DEFINED BENEFIT PENSION FUNDS TO WHICH MINNESOTA PROVIDES
GENERAL FUND RESOURCES AS OF JUNE 30, 2021⁽¹⁾

(\$'s in millions)

| | Actuarial Accrued Liability ² | Actuarial Value | | | Market Value | | | Membership | |
|--|--|---|---|-------------------------------|--|-----------------------|------------------|-------------------|------------------|
| | | Actuarial Value of Assets (AVA) ³ | Unfunded Actuarial Liability (UAAL) ⁴ | Funding Ratio ⁵ | Market Value of Assets (MVA) ⁶ | Unfunded Liability | Funding Ratio | Active Members | Other Members |
| 1. Funds Where the State Has Custodial Responsibility | | | | | | | | | |
| Minnesota State Retirement System (MSRS): | | | | | | | | | |
| — State Employees Retirement Fund | \$15,646 | \$15,198 | \$449 | 97.13% | \$17,440 | (\$1,794) | 111.46% | 50,889 | 72,309 |
| — Correctional Employees Retirement Fund | 1,771 | 1,380 | 391 | 77.95% | 1,581 | 190 | 89.27% | 4,504 | 6,224 |
| — State Patrol Retirement Fund | 992 | 835 | 157 | 84.21% | 958 | 34 | 96.57% | 912 | 1,226 |
| — Judges Retirement Fund | 391 | 241 | 150 | 61.56% | 277 | 115 | 70.69% | 320 | 413 |
| — Legislators Retirement Fund ⁽⁷⁾ | 174 | 0 | 174 | N/A | 0 | 174 | N/A | 12 | 384 |
| Subtotal | \$18,974 | \$17,654 | \$1,321 | | \$20,256 | (\$1,281) | | 56,637 | 80,556 |
| Public Employees Retirement Association (PERA): | | | | | | | | | |
| — General Employees Fund | \$29,216 | \$24,909 | \$4,307 | 85.26% | 28,588 | 628 | 97.85% | 149,281 | 259,332 |
| — PERA Police & Fire Fund | 10,794 | 9,931 | 863 | 92.01% | 11,398 | -604 | 105.60% | 11,705 | 14,381 |
| — Local Correctional Service Fund | 871 | 904 | -34 | 103.89% | 1,036 | -165 | 118.97% | 3,788 | 7,604 |
| Subtotal | \$40,881 | \$35,744 | \$5,136 | | \$41,022 | (\$141) | | 164,774 | 281,317 |
| Teachers' Retirement Association (TRA): | \$30,815 | \$24,728 | \$6,087 | 80.25% | \$28,358 | \$2,457 | 92.03% | 81,821 | 125,050 |
| Custodial Subtotal | \$90,670 | \$78,126 | \$12,544 | | \$89,636 | \$1,035 | | 303,232 | 486,923 |
| 2. Other Funds to Which the State Contributes | | | | | | | | | |
| Local Police & Fire Associations ⁽⁸⁾ | 176 | 232 | -56 | 131.57% | 232 | -56 | 131.57% | 114 | 236 |
| St. Paul Teachers' Retirement Fund | 1,730 | 1,160 | 570 | 67.06% | 1,295 | 435 | 74.86% | 3,353 | 9,427 |
| Other Contribution Subtotal | \$1,906 | \$1,392 | \$514 | | \$1,527 | \$379 | | 3,467 | 9,663 |
| TOTAL | \$92,576 | \$79,518 | \$13,058 | | \$91,163 | \$1,414 | | 306,699 | 496,586 |

(1)The information provided in this table reflects the condition of all funds as of June 30, 2021 and is derived from actuarial valuation results as of July 1, 2021. For additional information on the State's pension systems, see "APPENDIX F – State Financial Statements Note 8 – Pension and Investment Trust Funds" (see pages F-92 through F-111) and "Required Supplementary Information" (see pages F-160 through F-174).

(2)The actuarial accrued liability of each of the pension funds is an estimate based on demographic and economic assumptions of the present value of benefits that the pension funds will pay during the assumed life expectancies of the applicable members after they retire.

(3)The actuarial value of assets of each of the pension funds represents the market-related value of the assets held by the pension funds as adjusted to reflect various actuarial methods including the smoothing of actuarial losses and gains (including investment losses and gains) over a five-year period.

(4)The UAAL of each of the pension funds reflects the amount of the excess of the actuarial accrued liability of a pension funds over its actuarial value of assets. When the AVA exceeds the Actuarial Accrued Liability the UAAL will reflect a negative value.

(5)The Funding Ratio of each of the pension funds reflects the quotient obtained by dividing the actuarial value of assets of the pension funds by the actuarial accrued liability of the Pension Plan. The Funding Ratio figures depicted in the table are the actuary's computations for each retirement fund, as reported in each fund's July 1, 2021 actuarial valuation report.

(6)The market value of assets of each of the pension funds represents the fair market value of the assets held by the pension fund.

(7)The Elective State Officers Retirement Fund merged into the Legislators Retirement Fund effective July 1, 2013. Both the Legislators and Elective State Officers defined benefit retirement plans are financed on a pay-as-you-go basis from the State's General Fund. Legislators and Elective State Officers first elected after July 1, 1997 are members of the State's Unclassified Employees Retirement Fund, a defined contribution plan.

(8)Information for local police and fire associations reflects values as of December 31, 2021 for the Bloomington Fire Relief Association. The Bloomington Fire Relief Association exclusively reports funding status data using market values.

Source: Retirement Systems' annual comprehensive financial reports and actuarial valuation reports, Fiscal Year ended June 30, 2021; St. Paul Teachers' Retirement Fund Association actuarial valuation report, Fiscal Year ended June 30, 2021; Bloomington Fire Relief Association actuarial valuation report, calendar year ended December 31, 2021.

Pension Obligation Reporting: GASB Statements 67 and 68

GASB Statement No. 67: In June 2012, GASB issued GASB Statement No. 67 (“GASB 67”), which amended GASB Statement No. 25 and sets forth standards that modify the financial reporting of the State’s pension plans obligations. GASB 67 requires changes in plans presentation of the financial statements, notes to the financial statements, and required supplementary information. The changes include an actuarial calculation of total Net Pension Liability (NPL), defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the fair value of most assets at the end of each fiscal year set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the NPL to the discount rate, and increased investment disclosures. The standard was effective commencing with the State’s Fiscal Year 2014.

GASB 67 requires reporting based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year.

The GASB 67 standard requires under certain circumstances the recognition of additional liabilities associated with pensions over amounts previously required. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a “crossover date.” The crossover date can be sensitive to market volatility year to year, thereby resulting in a plan reflecting a different single discount rate from one year to the next. The single discount rate was 7.5 percent for all three funds in the GASB 67 Reports beginning in Fiscal Year 2018. The 2018 Legislature enacted reductions to plan provisions, increases to contribution rates, and revisions to actuarial assumptions to calculate the expected rate of return on pension plan investments. In Fiscal Year 2021, the 7.5 percent discount rate required by statute deviated from GASB reporting for all three retirement systems in Minnesota. For GASB purposes MSRS and PERA utilized a 6.5 percent discount rate while TRA utilized a 7.0 discount rate.

The Fiscal Year 2021 GASB 67 Reports are based on June 30, 2021 membership data, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2021. For the purpose of complying with GASB 67, the actuarial assumptions incorporate the use of market value of assets (as previously described) and the entry age normal (“EAN”) actuarial method. The EAN is a funding method for allocating the costs of the plan between the normal cost (the actuarial present value of the benefits allocated to the current year) and the accrued liability. The long-term expected rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio. The return could vary from system to system based on the cash flows associated with the system.

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The following table provides an analysis of funding progress for each of the State's defined benefit pension plans for Fiscal Year 2021 based on the GASB 67 Reports. The NPL is calculated using the plan assets of each system at their market value (Fiduciary Net Position) and a single discount rate (calculated as described above). The data are subject to wide variation year to year due to market volatility. The Plan Fiduciary Net Position values below reflect a plan's market value of assets after an investment return of 30.3 percent for Fiscal Year 2021. The UAAL shown in the table STATUTORY METHOD FUNDING STATUS OF DEFINED BENEFIT PENSION FUNDS TO WHICH MINNESOTA PROVIDES GENERAL FUND RESOURCES, by contrast, uses a smoothing method to determine the Actuarial Value of Assets at the plan's assumed rate of return.

MINNESOTA RETIREMENT SYSTEMS
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND
RELATED RATIOS USING GASB STATEMENT NO. 67
Actuarial Valuation Date as of July 1, 2021
(\$'s in Thousands)

| | Total Pension Liability | Plan Fiduciary Net Position¹ | NPL | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | Covered Payroll² | NPL as a Percentage of Covered Payroll |
|----------------------------------|------------------------------------|--|-----------------|---|--|---|
| MSRS: | | | | | | |
| State Employees | \$17,521,580 | \$17,440,051 | \$81,529 | 99.53% | \$3,325,417 | 2.45% |
| State Patrol | 1,111,995 | 957,864 | 154,131 | 86.14% | 88,351 | 174.45% |
| State Correctional | 2,023,040 | 1,580,953 | 442,087 | 78.15% | 282,667 | 156.40% |
| Judges | 429,083 | 276,638 | 152,445 | 64.47% | 52,960 | 287.85% |
| Legislators ³ | <u>140,796</u> | <u>0</u> | <u>140,796</u> | <u>0.00%</u> | <u>856</u> | <u>16,448.13%</u> |
| MSRS Totals | \$21,226,494 | \$20,255,506 | \$970,988 | 95.43% | \$3,750,251 | 25.89% |
| TRA | \$32,738,056 | \$28,361,757 | \$4,376,299 | 86.63% | \$5,326,108 | 82.17% |
| PERA: | | | | | | |
| General Employees | \$32,858,101 | \$28,587,653 | \$4,270,448 | 87.00% | \$6,761,354 | 63.16% |
| Police and Fire | 12,169,995 | 11,398,101 | 771,894 | 93.66% | 1,096,195 | 70.42% |
| Local Government Correctional | <u>1,019,288</u> | <u>1,035,716</u> | <u>(16,428)</u> | <u>101.61%</u> | <u>222,093</u> | <u>(7.40)%</u> |
| Total PERA | \$46,047,384 | \$41,021,470 | \$5,025,914 | 89.09% | \$8,079,642 | 62.20% |

¹Represents the market value of plan assets as of the actuarial valuation date.

²As of the actuarial valuation date.

³Is currently funded on a pay-as-you-go basis.

Source. Retirement Systems' GASB 67 and 68 Accounting reports, Fiscal Year ended June 30, 2021.

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The GASB 67 Reports present both an NPL and a funding percentage. Because the Retirement Systems use the EAN actuarial method for funding as the required method for their GASB 67 Reports, variances between the funding reports and GASB No. 67 Reports are primarily, but not exclusively, related to differences between (i) market values versus actuarial values and (ii) discount rates.

GASB 67 also requires an analysis to determine the sensitivity of the NPL to changes in the discount rate if it were calculated 1 percent point lower or 1 percent point higher. The results for Fiscal Year 2021 are as follows:

MINNESOTA RETIREMENT SYSTEMS
SENSITIVITY OF THE FISCAL YEAR 2021 NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT
RATE
USING GASB STATEMENT NO. 67
Actuarial Valuation Date as of July 1, 2021
(\$'s in Thousands)

| | With 1% Decrease | | Current Discount Rate | | With 1% Increase | |
|-------------------------------|------------------|-------------|-----------------------|-------------|------------------|---------------|
| | Rate | NPL | Rate | NPL | Rate | NPL |
| MSRS | | | | | | |
| State Employees | 5.50% | \$2,351,249 | 6.50% | \$81,529 | 7.50% | \$(1,793,650) |
| State Patrol | 5.50% | \$300,696 | 6.50% | \$154,131 | 7.50% | \$33,986 |
| State Correctional | 5.50% | \$753,731 | 6.50% | \$442,087 | 7.50% | \$190,045 |
| Judges | 5.50% | \$196,507 | 6.50% | \$152,445 | 7.50% | \$114,703 |
| Legislators | 0.92% | \$156,756 | 1.92% | \$140,796 | 2.92% | \$127,416 |
| TRA | 6.00% | \$8,840,337 | 7.00% | \$4,376,299 | 8.00% | \$715,432 |
| PERA | | | | | | |
| General Employees | 5.50% | \$8,709,534 | 6.50% | \$4,270,448 | 7.50% | \$627,907 |
| Police and Fire | 5.50% | \$2,450,633 | 6.50% | \$771,894 | 7.50% | \$(604,256) |
| Local Government Correctional | 5.50% | \$170,971 | 6.50% | \$(16,428) | 7.50% | \$(165,149) |

Source. Retirement Systems' GASB 67 and 68 Accounting reports, Fiscal Year ended June 30, 2021.

GASB Statement No. 68: In June 2012, GASB also issued GASB Statement No. 68, which set forth standards that modified the accounting and financial reporting of the State's pension obligations. The standard requires the State to report in its financial statements the State's proportionate share of the NPL. The State's proportionate share includes both the share of the NPL associated with the State's employees contributing into the retirement plans as well as the State's share of contributions to PERA for the former MERF and for the PEPFF, to TRA for the former DTRFA and for the former MTRFA and to SPTRFA, as the State's relationship to these plans meets the GAAP definition of a special funding situation.

The majority of the participants in MSRS funds are State employees. See "MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results" in this APPENDIX B for reporting information consistent with GASB 67 and GASB 68 requirements. Actuarial Methods and Assumptions used by the other funds are available directly from the funds and can be provided on request.

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Pension Legislation and Litigation

In 2010, legislation was enacted to modify the post retirement benefit adjustments. Beginning January 1, 2011, each statewide Retirement System has unique post retirement benefit adjustments. For the TRA, post-retirement benefits were frozen for 2011 and 2012. Beginning January 1, 2013, TRA benefit recipients received a 2.0 percent adjustment annually. The legislation increased the post retirement benefit adjustment from 2 percent to 2.5 percent annually once TRA's funding ratio exceeds 90 percent. For all of the defined benefit plans that the MSRS administers, with the exception of the State Patrol Retirement Fund, benefit recipients received a 2 percent adjustment annually. For the State Patrol Retirement Fund, benefit recipients received a 1.5 percent adjustment annually. The legislation included the post retirement benefit adjustment for each MSRS defined benefit fund to 2.5 percent annually when each fund's accrued liability funding ratio reaches 90 percent, determined on a market value of assets basis, except for the Legislators and Elective Officers Retirement Funds. For the Legislators and the Elective State Officers Retirement Funds, the annual benefit adjustment increased to 2.5 percent when the State Employees Retirement Fund is 90 percent funded on a market value of assets basis. Benefit recipients of the PERA Public Employees Police and Fire Fund received an annual adjustment equal to inflation up to 1.5 percent beginning January 1, 2013, until the funding reaches 90 percent. PERA's Public Employees Correctional Fund was 98.4 percent funded on a market value basis as of June 30, 2011, so subsequent annual adjustments increased to 2.5 percent effective January 1, 2012. In addition, for all of the PERA plans, if after reaching 90 percent funding, the ratio subsequently drops below 90 percent, the prospective annual adjustments must again be one percent for PERA General Employees Retirement Fund and inflation up to 1.5 percent for the PERA Public Employees Police and Fire Fund until the 90 percent funded ratio is again attained.

A class action lawsuit was filed in May 2010 against the State's pension funds. *Swanson, et al. v. State, Public Employees Retirement Association, Minnesota State Retirement System, Teachers Retirement Association (PERA, MSRS, TRA), et al.* (Ramsey County District Court). Plaintiffs challenged the 2009 and 2010 legislative changes made to the annual cost of living adjustment for pension benefits. The district court granted summary judgment to the State on all issues and dismissed the plaintiffs' complaint. Plaintiffs had until September 6, 2011 to appeal. No appeal was filed by the deadline.

The 2010 pension bill provided numerous financial stability provisions intended to reduce future unfunded liabilities for MSRS, TRA, PERA, SPTRFA and DTRFA. Provisions included a change in future retirement benefit increases for all MSRS, PERA, TRA, SPTRFA and DTRFA plans. Employer and employee contribution rate increases were also included for MSRS State Patrol Retirement Plan, PERA General Employees Retirement Fund, PERA Public Employees Police and Fire Fund, TRA, SPTRFA, and DTRFA plans. Various other provisions, including a change in refund rates, change in deferred annuities augmentation rate, and increased vesting periods for some plans, were included as a means to reduce future unfunded liabilities. At the end of Fiscal Year 2010, MSRS, PERA, and TRA lowered unfunded liabilities by a total of over \$5.9 billion on a combined basis.

During the period from 2010 to 2014, the Legislature annually made changes to the State Retirement System, including but not limited to, merging and consolidating local plans into the PERA and TRA, providing for State supplemental contributions, modifying investment earnings assumptions, modifying employee and employer contributions, modifying cost of living triggers, establishing a second tier for an existing plan and providing local aid to non-State plans.

The 2015 Legislature reduced the interest rate actuarial assumption from 8.5 percent to 8 percent for MSRS, PERA, and SPTRFA for Fiscal Year 2016 and thereafter. Related reductions in salary and payroll growth were also included. The TRA "select and ultimate" investment rate assumption remained unchanged by the 2015 Legislature. (For additional information on the "select and ultimate method", see "Investments- Assumed Return," in this APPENDIX B). Changes were also made to contribution stabilizer mechanisms for the PERA, MSRS, and TRA boards to allow more discretion to the boards in considering multiple factors. The interest rates charged to members who pay refunds or purchase leave and prior service credit were also adjusted.

Further, the 2015 Legislature revised the financial sustainability triggers for post-retirement adjustment mechanisms for MSRS, TRA, and SPTRFA. Prior to the 2015 legislation, post retirement benefits were to automatically increase when certain funding levels were met for each plan. The changes enacted by the Legislature in 2015 required that, once these increases were enacted, they will be automatically reduced if funding ratios fall below certain levels for each plan.

The 2015 Legislature also completed the merger of PERA and MERF. The annual State aid contribution to PERA following the merger with MERF was reduced by \$18 million (from \$24 million to \$6 million) per year for Fiscal Years 2016 and 2017, and by \$8 million (from \$24 million to \$16 million) per year for future fiscal years beginning Fiscal Year 2018. The reduction was due to a downward revision of the estimated aid needed by the plan following the merger.

In 2016, following the experience studies completed by the MSRS General Employees Retirement Fund, PERA General Employees Retirement Fund and TRA, the LCPR approved adoption of several updated actuarial assumptions, including new mortality tables as well as other economic, demographic, and technical assumptions. These assumption changes did not require approval of the full legislature.

The LCPR also approved an omnibus pension bill that contained changes to TRA's discount rate assumption. Specifically, the bill eliminated the select and ultimate discount rate assumption, replacing it with an 8 percent rate assumption for all years. Also included in the bill was a one-year reduction to retiree cost of living increases for TRA and MSRS members (with the exception of Judges and State Patrol plan members), as well as other policy changes, administrative changes, and legislation related to individuals or small groups of members.¹

Following approval by the LCPR, this bill was passed by both the House and Senate. Then Governor Mark Dayton vetoed the bill.² In his veto letter, then Governor Dayton expressed concern that the final bill placed the onus of the sustainability measures on current retirees, rather than reflecting a shared responsibility that also included contributions from employers and active members. The Governor, in his veto message, noted future legislation must reflect a shared participation and be funded, in order to gain his signature.

The 2016 Legislature also directly appropriated \$3 million in Fiscal Year 2017 and \$6 million for Fiscal Year 2018 and beyond for the MSRS Judges Retirement Plan. This appropriation continues until the plan reaches 100 percent funding.

The 2017 Legislature passed an omnibus pension bill (Laws of Minnesota 2017, 1st Special Session, Chapter 2) that increased employee and employer contributions to MSRS's General Employees Retirement Plan, State Patrol Correctional Plan, and Correctional Employee Retirement Plan, and PERA's Public Employees Police and Fire Plan. The bill also increased the employer contribution to plans in the St. Paul Teacher's Retirement Fund. In addition, the bill reduced the discount rate assumption from 8.0 percent to 7.5 percent and reset the amortization period to 2047 for all funds other than the Teachers Retirement Fund. The bill also contained a variety of benefit reductions affecting different plans related to cost of living adjustments, deferred augmentation, enhanced augmentation, early retirement augmentation, and refund interest rates, although TRA was not impacted by these changes. The bill contained funding to state agencies, the judicial branch, and to St. Paul Public Schools to pay for the increased employee contribution rates, and it also included direct appropriations to PERA's Public Employees Police and Fire Fund and the St. Paul Teachers' Fund.³ Then Governor Dayton vetoed the bill; thus, these changes were not enacted. In his veto letter, the Governor stated that the bill was vetoed due to provisions unrelated to pensions that would have preempted local governments' ability to set wage and other labor standards different than those prescribed under state statute.⁴

The 2017 Legislature also reduced the annual state aid to PERA related to the merger of MERF from \$16 million annually to \$6 million annually beginning Fiscal Year 2020. Correspondingly, required supplemental contributions from certain local government employers was increased from \$21 million to \$31 million annually beginning Fiscal Year 2020.

The 2018 Legislature enacted a comprehensive set of reforms affecting all Retirement Systems intended to improve the funding status of Minnesota's public pension funds. For more information about the 2018 legislation, see "2018 Omnibus Retirement Act" in this APPENDIX B.

The 2019 Legislature restored the annual state aid to PERA related to the merger of MERF that was reduced by the 2017 Legislature. The 2019 legislation increased the annual state aid amount from \$6 million to \$16 million beginning Fiscal Year 2020. Correspondingly, required supplemental contributions from certain local government employers was reduced from \$31 million to \$21 million annually beginning Fiscal Year 2020. The 2019 Legislature also altered the required contributions from the City of Minneapolis to the Public Employees Police and Fire Fund related to the 2011 mergers of the Minneapolis Police Relief Association and the Minneapolis Firefighters Relief Association into the PEPFF. Prior to the 2019 legislation, payments from the City of Minneapolis were required to be recalculated with changes in actuarial assumptions. The 2019 Legislature established the required payments from the City of Minneapolis at \$7.679 million annually.

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¹A summary of the 2016 omnibus pension bill (S.F. 588) can be found here:

http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2016/S0588-2_Summary.pdf

²Then Governor Dayton's veto message regarding Chapter 177 (S.F. 588) can be found here:

https://www.leg.state.mn.us/archive/veto/2016veto_ch177.pdf

³ A summary of the 2017 omnibus pension bill (S.F. 3) can be found here:

http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2017/SS_SF3_Summary.pdf

⁴ Then Governor Dayton's veto letter regarding Chapter 2 (S.F. 3) can be found here:

https://www.leg.state.mn.us/archive/veto/2017_sp1veto_ch2.pdf

The 2021 Legislature reduced the postretirement adjustment rate for retirees in the MSRS Judges Retirement Plan from 1.75 percent per year to 1.5 percent per year and removed the automatic triggers that would increase the annual postretirement adjustment rate to 2 percent when the plan reaches a funded ratio of 70 percent in two consecutive years and to 2.5 percent when the plan reaches a funded ratio of 90 percent in two consecutive years. The 2021 Legislature also delayed by one year the implementation of a higher employee contribution rate for the SPTRFA which was set to increase from 7.5 percent to 7.75 percent on July 1, 2022. The increase will now go into effect on July 1, 2023. The change aligns with the timing of employee contribution rate increases for the TRA from the 2018 pension bill.

The 2022 Legislature made several small policy changes to the retirement plans, including restoring segmented annuities for members of PERA who have had a break in public employment and allowing for retroactive implementation of segmented annuities for members who have retired since the provision was repealed in 2018. These changes only apply to members who ceased employment covered by the PERA general plan prior to 2012. Additionally, the Legislature permitted retired teachers covered by TRA to return to work without an earnings limitation until 2024. The LCPR approved a more comprehensive pension finance bill that contemplated reducing the assumed rate of return and several other benefits and contribution changes supplemented by the General Fund. However, this bill was not heard by the House Ways and Means committee or the Senate Finance committee and was not passed by either body.

2018 Omnibus Retirement Act

The 2018 Legislature unanimously passed the 2018 Omnibus Retirement Act (Laws of Minnesota 2018, Chapter 211). This act was signed by the then Governor Dayton on May 31, 2018. The act contained a comprehensive set of reforms intended to improve the funding status of Minnesota's public pension funds. Based on estimates provided to the LCPR by the Retirement Systems, the 2018 Omnibus Retirement Act immediately reduced the actuarial accrued liabilities of the three Retirement Systems by approximately \$3.3 billion. The description below, adapted from a summary published by the LCPR, provides information about the enacted changes:⁵

During the 2017 legislative session, the LCPR considered a variety of reforms, with a goal to leave intact core benefits while reducing benefit liabilities. The benefit reforms included in the 2018 act were the following:

- *Elimination of augmentation:* "Augmentation" is a cost of living adjustment made each year to the pension benefit earned by a member who is no longer in public service. In other words, it is an automatic annual increase in the pension benefit accrued by former employees.
- *Elimination of enhanced augmentation:* The act reduced the enhanced rate of augmentation for former employees of the University of Minnesota Hospital and Clinics under the MSRS General Plan who were transferred to private sector employment with Fairview Hospital and Healthcare Services in 1996. The rates of augmentation in place prior to the 2018 act, 5.5% (until age 55) and 7.5% (from age 55 to the date pension payments begin), were reduced by .75% each year, until augmentation ceases after December 31, 2024.
- *Early retirement subsidies removed:* Early retirement benefits are calculated by adding in augmentation (at 2.5% or 3% prior to the 2018 act, depending on hire date) that an early retiree would have otherwise received had the retiree waited until normal retirement age to begin receiving a pension. The act eliminated this subsidy over a five-year period, for the MSRS General Plan, PERA General Plan, TRA, and SPTRFA.
- *Rate of interest on refunds reduced:* After leaving public employment, a member may take a refund of employee contributions, while forfeiting the right to a pension at retirement age. Interest is paid on the refund for the years that the contributions were in the plan. The act reduced the rate of interest on refunds of employee contributions to former employees from 4 percent annually to 3 percent annually.

All changes were effective prospectively, which means that the benefit accrued to the effective date of the change was not reduced, or the change becomes effective for retirements after the effective date or as phased in over a period of years.

The act also reduced or temporarily suspended the COLA increases automatically applied to retiree pension benefits and, for two pension plans administered by PERA, changed the method for determining the amount of COLA increases to tie them to COLA increases on federal Social Security pensions.

⁵ The LCPR summary of the 2018 Omnibus Retirement Act (Chapter 211) can be found here: https://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2018/Summary_of_S2620_as_Enacted.pdf

The COLA-related changes in the act were the following:

- *COLA triggers repealed:* Prior to the 2018 act, Minnesota Statutes provided automatic increases to the COLA rates established in law if a plan reached a specified funding ratio. The act removed these automatic modifications to post retirement pension benefit adjustments for all plans.
- *COLA percentage reduced:* The percentage of automatic increase was modified for these plans:
 - MSRS General Plan: From 2 percent (applicable prior to the 2018 act) to 1 percent through calendar year 2023, then 1.5 percent thereafter.
 - MSRS Correctional Plan: From 2 percent (applicable prior to the 2018 act) to 1.5 percent.
 - TRA: From 2 percent (applicable prior to the 2018 act) to 1 percent through calendar year 2023, then the rate will increase by 0.1 percent each year until it reaches 1.5 percent, and remain at 1.5 percent thereafter.
 - SPTRFA: No COLA increase for calendar years 2019 and 2020, then 1 percent thereafter.
- *COLA tied to SSA COLAs:* For the PERA General and Correctional Plans, the COLA is now tied to the COLA as announced each year by the federal Social Security Administration.
 - PERA General Plan: The increase as of a January 1, 2019, is 50 percent of the increase announced by the SSA, but no less than 1 percent and no greater than 1.5 percent.
 - PERA Correctional Plan: The increase as of a January 1, 2019, is equal to the increase announced by the SSA, but no less than 1 percent and no greater than 2.5 percent. When the plan’s funded ratio is less than 85 percent for two years or less than 80 percent for one year, the 2.5 percent maximum is reduced to 1.5 percent and remains at 1.5 percent thereafter.
- *First COLA postponed until normal retirement age:* For members who retire before normal retirement age (at an early retirement age), the member’s pension benefit will not be increased by a COLA until the member reaches normal retirement age. This change is to take effect for retirements that occur after January 1, 2024, and affects MSRS General, PERA General, TRA, and SPTRFA.

The act updated the annualized assumed investment return and re-set the amortization period for each pension fund except the Legislators Retirement Fund to a new 30-year period, extending the period until 2048. The act removed the assumptions for payroll growth and salary increases and added references to an appendix to the Standards for Actuarial Work, published by the LCPR, where these assumptions will be reported and updated.

Reduction of annualized assumed investment return to 7.5 percent: The act reduced the annualized assumed investment return that is required to be used in the actuarial valuation for each plan to 7.5 percent. Prior to the 2018 act, Minnesota Statutes required that the actuarial valuations be prepared assuming that the annualized assumed investment return is 8 percent for all the plans except TRA and 8.5 percent for TRA. The Governor’s Blue Ribbon Panel on Pension Reform, which issued its report just before the 2017 Legislative Sessions, recommended reducing the rate to 7.5 percent.

Employers and employees are required under Minnesota Statutes to contribute a specified percentage of pay to the pension plan in which they participate. The act imposed contribution increases for the following plans:

MSRS GENERAL AND UNCLASSIFIED PLAN CONTRIBUTION INCREASES

| | General and Unclassified Plans | | | General Plan | | | Unclassified Plan | |
|-------------------------|--------------------------------|-------|-------------|--------------|--------|--------------|-------------------|--------------|
| | Employee | | | Employer | | | Employer | |
| | FY19 | FY20 | TOTAL | FY19 | FY20 | TOTAL | FY20 | TOTAL |
| Percent of pay increase | 0.25% | 0.25% | 0.5% | 0.375% | 0.375% | 0.75% | 0.25% | 0.25% |
| Total percent of pay | 5.75% | 6% | | 5.875% | 6.25% | | 6.25% | |

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MSRS CORRECTIONAL PLAN CONTRIBUTION INCREASES

| | Employee | | | Employer | | | | |
|--|----------|------|-------------|----------|--------|--------|--------|--------------|
| | FY19 | FY20 | TOTAL | FY19 | FY20 | FY21 | FY22 | TOTAL |
| Percent of pay increase: | | | | | | | | |
| Regular Contribution | 0.5% | - | 0.5% | 1.55% | - | - | - | 1.55% |
| Supplemental Contribution ⁽¹⁾ | NA | NA | | - | 1.45% | 1.5% | 1.5% | 4.45% |
| Total percent of pay | 9.6% | 9.6% | | 14.4% | 15.85% | 17.35% | 18.85% | |

⁽¹⁾The 4.45 percent annual supplemental contribution remains in effect until the plan is 100 percent funded.

MSRS STATE PATROL PLAN CONTRIBUTION INCREASES

| | Employee | | | Employer | | | | |
|--|----------|-------|--------------|----------|-------|-------|-------|-------------|
| | FY19 | FY20 | TOTAL | FY19 | FY20 | FY21 | FY22 | TOTAL |
| Percent of pay increase: | | | | | | | | |
| Regular Contribution | 0.5% | 0.5% | 1% | 0.75% | 0.75% | - | - | 1.5% |
| Supplemental Contribution ⁽¹⁾ | NA | NA | | 1.75% | 1.25% | 2% | 2% | 7% |
| Total percent of pay | 14.9% | 15.4% | 15.4% | 24.1% | 26.1% | 28.1% | 30.1% | |

⁽¹⁾The 7 percent annual supplemental contribution remains in effect until the plan is 100 percent funded.

PERA POLICE & FIRE PLAN CONTRIBUTION INCREASES

| | Employee | | | Employer | | |
|-------------------------|----------|-------|-----------|----------|-------|-------------|
| | 2019 | 2020 | TOTAL | 2019 | 2020 | TOTAL |
| Percent of pay increase | 0.5% | 0.5% | 1% | 0.75% | 0.75% | 1.5% |
| Total percent of pay | 11.3% | 11.8% | | 16.95% | 17.7% | |

TRA CONTRIBUTION INCREASES

| | Employee | | Employer | | | | | | |
|-------------------------|----------|--------------|----------|-------|-------|-------|-------|-------|--------------|
| | FY24 | TOTAL | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | TOTAL |
| Percent of pay increase | 0.25% | 0.25% | 0.21% | 0.21% | 0.21% | 0.21% | 0.21% | 0.2% | 1.25% |
| Total percent of pay | 7.75% | | 7.71% | 7.92% | 8.13% | 8.34% | 8.55% | 8.75% | |

SPTRFA CONTRIBUTION INCREASES

| | Employee | | Employer | | | | | | |
|-------------------------|----------|--------------|----------|--------|-------|-------|-------|------|-------------|
| | FY23 | TOTAL | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | TOTAL |
| Percent of pay increase | 0.25% | 0.25% | 0.835% | 0.835% | 0.21% | 0.21% | 0.21% | 0.2% | 2.5% |
| Total percent of pay | 7.75% | | 7.335% | 8.17% | 8.38% | 8.59% | 8.8% | 9% | |

The act also required the State to make annual payments each October 1 directly to the PERA Public Employees Police and Fire Plan and to SPTRFA starting in Fiscal Year 2019. The amounts shown in Fiscal Year 2021 reflect the annual State direct aid payment amount for each year thereafter.

DIRECT STATE AID (\$ IN MILLIONS)

| | FY19 | FY18-19 | FY20 | FY21 | FY20-21 |
|--------|-------|--------------|-------|------|---------------|
| PEPFF | \$4.5 | \$4.5 | \$4.5 | \$9 | \$13.5 |
| SPTRFA | \$5 | \$5 | \$5 | \$5 | \$10 |

The act also amended all the statutes that provide for direct state aid payments to the pension plans to add an expiration date that is, generally, the earlier of attainment of a funded ratio of 100 percent or July 1, 2048.

Finally, the act provided funding to executive branch State agencies and school districts to offset expected costs related to the employer contribution rate increases. It amended the statute providing for pension adjustment revenue to school districts by adding a formula intended to reimburse school districts for the employer contribution increases to TRA and SPTRFA. Pension adjustment revenue is based on salaries paid to teachers. The act also provided direct appropriations to executive branch State agencies to offset the estimated cost of the increased employer contribution rates.

As mentioned above, the State is the primary contributing employer for MSRS and is a small contributing employer for the PERA and TRA plans. The State also makes non-employer contributions to certain plans and makes contributions to certain local governments to assist them with their pension funding obligations, as described herein. In addition, the State appropriates general (non-pension related) State aid payments to certain local governments and school districts that are contributing employers in these plans. Provided below is more detailed information related to MSRS's State Retirement System Fund's actuarial valuations, actuarial methods and assumptions, historical funding, eligibility and benefit formulas, as well as historical funding history for other State employer contribution and General Fund appropriations.

MSRS – Statutory Funding Actuarial Valuations

While MSRS administers five defined benefit pension funds, the three largest funds, the State Employees Retirement Fund, the Correctional Employees Retirement Fund, and the State Patrol Retirement Fund, represent over 99.0 percent of total assets for MSRS's defined benefit funds. Refer to the MSRS Annual Comprehensive Financial Report for further discussion of actuarial valuations for the MSRS defined benefit pension funds as of June 30, 2021.

The State Employees Retirement Fund which includes the General Employees Retirement Plan and its three special groups, the State Fire Marshals Plan, the Military Affairs Plan and the Transportation Pilots Plan, was 97.13 percent funded, with the actuarial value of assets totaling \$15.198 billion, and the actuarial accrued liability totaling \$15.646 billion, as of July 1, 2021. For purposes of determining the actuarial value of assets, assets are based on a five-year moving average of expected and market values. The State Employees Retirement Fund's funding status, determined on a market value of assets basis, increased from 91.25 percent as of the July 1, 2020 actuarial valuation to 111.46 percent as of the July 1, 2021, actuarial valuation. The improvement is due to positive investment returns during the fiscal year.

The actuarial valuation also calculates the required contribution rates that are necessary to ensure that the MSRS funds become fully funded. As noted above, the 2018 Omnibus Retirement Act extended the full funding date for these funds to June 30, 2048. The July 1, 2021 actuarial valuation for the State Employees Retirement Fund calculated that statutory contributions currently received from members and employers are 3.12 percent of payroll above the amount required to fully fund the retirement plan by 2048. The contribution changed from a sufficiency of 1.69 percent of payroll as of July 1, 2020, to a sufficiency of 3.12 percent of payroll as of July 1, 2021 (projected annual payroll for the fiscal year beginning on the July 1, 2021 actuarial valuation date was \$3.3 billion). The primary reason for the improvement was favorable investment returns during the fiscal year.

Actuarial valuation results as of July 1, 2021 show that the MSRS Correctional Employees Retirement Fund is 77.95 percent funded, with the actuarial value of assets totaling \$1.380 billion, and the actuarial accrued liability totaling \$1.771 billion. The contribution sufficiency of 0.80 percent of payroll as of July 1, 2020 increased during the fiscal year, resulting in a contribution sufficiency of 3.70 percent of payroll as of July 1, 2021. Funding status, determined on a market value of assets basis, increased from 73.23 percent as of the July 1, 2020, actuarial valuation to 89.27 percent as of the July 1, 2021, actuarial valuation because there is no smoothing of asset gains and losses using this method.

The State Patrol Retirement Fund is 84.21 percent funded, with the actuarial value of assets totaling \$835 million, and the actuarial accrued liability totaling \$992 million based on July 1, 2021 actuarial valuation results. The contribution sufficiency increased from 4.10 percent of payroll as of July 1, 2020 to 11.99 percent of payroll as of July 1, 2021. Annual State contributions of \$1 million are reflected in the computations of the contribution sufficiency as of the July 1, 2020 and the July 1, 2021 actuarial valuation dates. The funding status, determined on a market value of assets basis, increased from 76.60 percent as of the July 1, 2020, actuarial valuation to 96.57 percent as of the July 1, 2021, actuarial valuation because there is no smoothing of asset gains and losses using this method.

The Judges Retirement Fund, is 61.56 percent funded, with the actuarial value of assets totaling \$241 million and the actuarial accrued liability totaling \$391 million based on July 1, 2021 actuarial valuation results. The contribution deficiency for the plan of 0.47 percent of payroll as of the July 1, 2020 actuarial valuation was eliminated, resulting in a contribution sufficiency of 4.84 percent of payroll as of the July 1, 2021 actuarial valuation. The improvement is due to better than expected investment returns and changes to plan provisions. Funding status, determined on a market value of assets basis, increased from 53.83 percent as of the July 1, 2020 actuarial valuation to 70.69 percent as of the July 1, 2021 actuarial valuation for the same reasons, and because there is no smoothing of asset gains and losses using this method.

The Legislators Retirement Fund is funded on a pay-as-you-go basis with annual appropriations from the State's General Fund.

MSRS – Statutory Actuarial Methods and Assumptions

Statutory: The annual employer and employee contributions to the State Employees Retirement Fund are established in Minnesota Statutes. The 2018 Legislature increased these contribution rates in the 2018 Omnibus Retirement Act as of Fiscal Year 2019. The calculated actuarially required contribution of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using the following methods and assumptions:

**MSRS GENERAL EMPLOYEES RETIREMENT PLAN
STATUTORY ACTUARIAL METHODS AND ASSUMPTIONS**

| | |
|---|--|
| Actuarial Cost Method | Individual entry age normal |
| Rate of Return on the Investment of Present and Future Assets | 7.5% per year |
| Projected Salary Increases | Reported salary at the valuation date increased according to the rate table, to current fiscal year and annually for each future year. Prior fiscal year salary is annualized for members with less than one year of service. |
| Payroll Growth | 3.00% per year |
| Experience Studies | Period Covered: Fiscal Year 2014-2018 |
| Asset Valuation | Asset valuations are based on market values at the end of the fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. The unrecognized asset return is the difference between the actual net return on the market value of assets and the asset return expected during the fiscal year based on the assumed interest rate. |
| Total Unrecognized Investment Return (loss) at June 30, 2021 | \$3,078,219 |

Sources: MSRS Annual Comprehensive Report, June 30, 2021, and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2021.

MSRS - Historical Funding

The actuarial valuations measure current costs and contribution requirements to determine how much employers and members should contribute to maintain appropriate funding progress to pay future benefits. Actuarial valuations also measure assets and liabilities to determine the level of funding for each defined benefit plan. The table below provides a historical comparison of the statutory actual employee and employer contribution rates (on a percentage of annual payroll basis) compared to the calculated actuarially recommended rate (the calculated actuarial required contribution).

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**MINNESOTA STATE RETIREMENT SYSTEM STATE EMPLOYEES RETIREMENT FUND
PERCENTAGE OF PAYROLL ACTUAL CONTRIBUTION RATES AS COMPARED TO STATUTORY
ACTUARIALLY RECOMMENDED RATES
TEN-YEAR CONTRIBUTION HISTORY**

| <i>For the Fiscal Year ended June 30th</i> | <i>Statutory Actual Contribution Rates</i> | | | <i>Actuarial Recommended Rate</i> | <i>Sufficiency/ Deficiency Employee</i> |
|---|--|-----------------|--------------|---|---|
| | <i>Employee</i> | <i>Employer</i> | <i>Total</i> | | |
| 2012 | 5.00% | 5.00% | 10.00% | 12.32% | (2.32)% |
| 2013 | 5.00% | 5.00% | 10.00% | 12.45% | (2.45)% |
| 2014 | 5.50% | 5.50% | 11.00% | 12.82% | (1.82)% |
| 2015 | 5.50% | 5.50% | 11.00% | 12.44% | (1.44)% |
| 2016 | 5.50% | 5.50% | 11.00% | 14.49% | (3.49)% |
| 2017 | 5.50% | 5.50% | 11.00% | 13.24% | (2.24)% |
| 2018 | 5.75% | 5.88% | 11.63% | 11.53% | 0.10% |
| 2019 | 6.00% | 6.25% | 12.25% | 11.58% | 0.67% |
| 2020 | 6.00% | 6.25% | 12.25% | 10.56% | 1.69% |
| 2021 | 6.00% | 6.25% | 12.25% | 9.13% | 3.12% |

Sources: MSRS Annual Comprehensive Financial Reports (2012 – 2021) – Schedule of Actual Contribution Rates as Compared to Actuarially Recommended Rates.

Further, the better the level of funding, the larger the ratio of assets to accrued liabilities and the greater the level of investment income potential. A higher funding ratio means that present assets and projected investment earnings on those assets are more likely to cover the liabilities for present and future annuities, survivor and disability benefits, refunds, and administrative expenses.

**MINNESOTA STATE RETIREMENT SYSTEM STATE EMPLOYEES RETIREMENT FUND
TEN-YEAR FUNDING HISTORY
(\$'s in Thousands)**

| <i>For the Fiscal Year ended June 30th</i> | <i>Aggregate Accrued Liabilities</i> | | | <i>Reported Assets</i> | <i>Portion Covered by Reported Assets</i> | | | <i>Funding Ratio (%)</i> |
|---|--|---|--|----------------------------|---|------------------|------------------|----------------------------------|
| | <i>Active Member Contributions (1)</i> | <i>Retirees and Beneficiaries (2)</i> | <i>Employer Financed Portion (3)</i> | | <i>% (1)</i> | <i>% (2)</i> | <i>% (3)</i> | |
| 2012 | \$1,044,810 | \$5,489,756 | \$4,548,661 | \$9,162,301 | 100 | 100 | 57.8 | 82.7 |
| 2013 | 1,090,373 | 5,807,381 | 4,530,887 | 9,375,780 | 100 | 100 | 54.7 | 82.0 |
| 2014 | 1,128,164 | 6,471,998 | 4,844,964 | 10,326,272 | 100 | 100 | 56.3 | 83.0 |
| 2015 | 1,161,369 | 6,949,000 | 4,982,333 | 11,223,285 | 100 | 100 | 62.5 | 85.7 |
| 2016 | 1,206,968 | 7,746,511 | 5,363,407 | 11,676,370 | 100 | 100 | 50.8 | 81.6 |
| 2017 | 1,260,721 | 8,207,943 | 5,040,486 | 12,364,957 | 100 | 100 | 57.5 | 85.2 |
| 2018 | 1,309,528 | 8,512,016 | 4,857,945 | 13,035,350 | 100 | 100 | 66.2 | 88.8 |
| 2019 | 1,365,782 | 8,974,283 | 4,839,075 | 13,489,773 | 100 | 100 | 65.1 | 88.9 |
| 2020 | 1,429,966 | 9,117,035 | 4,636,842 | 13,954,562 | 100 | 100 | 73.5 | 91.9 |
| 2021 | 1,493,476 | 9,563,516 | 4,589,409 | 15,197,610 | 100 | 100 | 90.2 | 97.1 |

Source: MSRS Annual Comprehensive Report, June 30, 2021 – Solvency Test for Last Ten Fiscal Years.

The historical funding history of the other defined benefit plans in the Retirement Systems is provided in the MSRS, TRA and PERA Annual Comprehensive Financial Reports for the Fiscal Year ended June 30, 2021. See “General Information” in this APPENDIX B.

MSRS – Eligibility and Benefit Formulas

Provided below is a description of the eligibility and benefit formulas of the MSRS General Employees Retirement Plan, the largest plan of the State Employees Retirement Fund, as of June 30, 2021.

MSRS General Employees Retirement Plan

| | |
|---|--|
| A. Coverage | Most State employees, University of Minnesota non-instructional employees, and selected metropolitan agency employees |
| B. Contribution Rates | Employees: 6.00 percent of payroll. Employers: 6.25 percent of payroll. Employee contributions are “picked up” according to the provisions of Internal Revenue Code 414(h). |
| C. Benefit Formula | If first hired before July 1, 1989, the benefit formula is the greater of (a) or (b): (a) 1.2 percent of a high-five year salary for the first 10 years of allowable service plus 1.7 percent of high-five salary for each subsequent year. This benefit is reduced for each month the member is under age 65 at time of retirement, or under age 62 with 30 years of allowable service. There is no reduction in the formula if the member’s age plus years of allowable service totals 90 (Rule of 90). (b) 1.7 percent of high-five year salary for each year of allowable service assuming augmentation to age 65 at 3 percent per year and an actuarial reduction for each month the member is under age 65. If first hired after June 30, 1989, the benefit formula is 1.7 percent of high-five year salary for each year of allowable service with an actuarial equivalent, early retirement reduction for each month the member is under the normal retirement age. Salary includes wages and other periodic compensation. It excludes lump sum payments at separation, employer contributions to deferred compensation and tax sheltered annuity plans, and benevolent vacation and sick leave donation programs. The high-five average salary is the average salary from the sixty-successive month period with the highest gross salary. |
| D. Retirement Age and Service Requirements | <i>Eligibility for unreduced retirement benefits:</i> Age 65 for employees hired before July 1, 1989, or age 66 for employees hired on or after July 1, 1989 Age eligible for full Social Security retirement benefits (but not higher than age 66) if hired before July 1, 1989; with three or more years of allowable service (five years if hired after June 30, 2010) Rule of 90 for those employees hired before July 1, 1989. <i>Eligibility for reduced retirement benefits:</i> Age 55 with three years of service if hired prior to July 1, 2010, or five years of service if hired after June 30, 2010, reduced from full retirement age Any age with 30 years of service, reduced from age 62 (pre-July 1, 1989 hires only) The plan also offers total and permanent disability benefits for employees with at least three years of service (five years of service after June 30, 2010). |
| E. Surviving Spouse Benefit | If employee has at least three years of service at death, (five years if hired after June 30, 2010), generally, the spouse is eligible for a 100 percent survivor annuity or a refund. |
| F. Refunds | Employee contributions plus 6 percent interest compounded annually through June 30, 2011, 4 percent through June 30, 2018, and 3 percent thereafter. |

Source: Minnesota State Retirement System 2021 Annual Comprehensive Financial Report.

Eligibility and benefit formulas for the various plans covered under the Retirement Systems are provided in the MSRS, TRA and PERA Annual Comprehensive Financial Reports for the Fiscal Year ended June 30, 2021. See “General Information” in this APPENDIX B.

MSRS - Employer Contributions

The following table summarizes the employer contributions made to the MSRS for the last 10 years. Contributions are made from a variety of State funds, the largest single source being the General Fund. Based on payroll expense data for Fiscal Year 2021, when excluding component units that submit contributions to MSRS separately from the state payroll, approximately 45 percent of State employer contributions came from the General Fund, 14 percent from the Trunk Highway Fund and 5 percent from federal funds. All other State employer contributions were from 98 other funds of the State. Component units receive funding from a variety of State and non-State sources.¹

MINNESOTA STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION HISTORY
MINNESOTA STATE RETIREMENT SYSTEM
(\$'s in Thousands)

| For the Fiscal Year Ended (June 30 th) | Employer Contributions ⁽¹⁾ | | | | | | Total |
|--|---------------------------------------|--|---|---------------------------------------|--|------------------------------|------------|
| | State Employees Retirement Fund | Correctional Employees Retirement Fund | Elective State Officers Fund ⁽²⁾ | Judges Retirement Fund ⁽³⁾ | Legislators Retirement Fund ⁽²⁾ | State Patrol Retirement Fund | |
| 2012 | \$115,159 | \$24,188 | \$465 | \$7,922 | \$3,935 | \$11,620 | \$ 163,289 |
| 2013 | 121,673 | 24,632 | 470 | 8,177 | 3,399 | 11,482 | 169,833 |
| 2014 | 128,037 | 26,468 | N/A | 9,426 | 3,436 | 11,894 ⁽⁴⁾ | 179,261 |
| 2015 | 146,333 | 29,480 | N/A | 9,776 | 3,216 | 13,763 ⁽⁴⁾ | 202,568 |
| 2016 | 151,168 | 30,678 | N/A | 10,219 | 5,087 | 13,938 ⁽⁴⁾ | 211,090 |
| 2017 | 158,352 | 31,763 | N/A | 10,758 | 8,716 | 15,783 ⁽⁴⁾ | 225,372 |
| 2018 | 164,233 | 32,893 | N/A | 11,027 | 8,856 | 15,952 ⁽⁴⁾ | 232,961 |
| 2019 | 182,939 | 38,245 | N/A | 11,287 | 8,798 | 19,479 ⁽⁴⁾ | 260,748 |
| 2020 | 204,006 | 43,658 | N/A | 11,767 | 8,764 | 21,975 ⁽⁴⁾ | 290,170 |
| 2021 | 206,381 | 48,823 | N/A | 11,916 | 8,639 | 24,809 ⁽⁴⁾ | 300,568 |

- ⁽¹⁾ Other than contributions described in the footnotes below, all other plans are bi-weekly employer contributions. Amounts exclude the State's employer contribution to the Unclassified Employees Retirement Fund (Defined Contribution Plans).
- ⁽²⁾ Effective July 1, 2013, the Elective State Officers Fund was merged into the Legislators Retirement Fund. The Legislators Retirement Fund is funded on a pay-as-you-go basis from the State's General Fund.
- ⁽³⁾ Employer contributions to the Judges Retirement Fund do not include supplemental State aid totaling \$3 million in Fiscal Year 2017 and \$6 million in Fiscal Year 2018. This amount is recognized as a General Fund contribution in MSRS' financial statements.
- ⁽⁴⁾ Employer contributions to the State Patrol Retirement Fund do not include the annual \$1 million supplemental State aid beginning Fiscal Year 2014. This amount is recognized as other income in MSRS' financial statements.

Sources: MSRS Annual Comprehensive Financial Reports (2012-2021).

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¹ State of Minnesota component units that submitted contributions to MSRS separately from the state payroll included University of Minnesota, Metropolitan Council, and Minnesota Sports Facilities Authority, as reported in the MSRS Annual Comprehensive Financial Report as of June 30, 2021.

MSRS – GASB Statements No. 67 and No. 68 Actuarial Valuation Results

To comply with GASB Statement No. 67, MSRS engaged actuaries to compute the NPL (total pension liability less Fiduciary Net Position) and pension expense amounts. Contributing employers are required, under GASB Statement No. 68, to report these amounts in their financial statements. The NPL will often be one of the largest amounts reported in an employer’s financial statements. The new measures of these amounts (e.g., NPL, pension expense) are substantially different from the funding measures (e.g., funding ratio, actuarial accrued liability, contribution sufficiency/deficiency rate, etc.) primarily due to the actuaries utilizing GASB-compliant actuarial assumptions, rather than the actuarial assumptions prescribed in Minnesota Statutes, in their computations.

The calculated NPL of the MSRS General Employees Retirement Plan, the largest State funded plan, was determined using the following methods and assumptions.

**MINNESOTA STATE RETIREMENT SYSTEM GENERAL EMPLOYEES RETIREMENT PLAN
GASB 67 ACTUARIAL METHODS AND ASSUMPTIONS FOR FISCAL YEAR 2021**

| | |
|---------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Asset Valuation Method | Fair Value of Assets |
| Long-term Expected Return | 6.50 percent |
| Inflation | 2.25 percent |
| Salary Increases | Reported total salary at the valuation date increased according to the rate table, to current fiscal year and annually for each future year. Prior fiscal year salaries are annualized for members with less than one year of service |
| Payroll Growth | 3.00 percent |
| Mortality Rates | Pub-2010 General Employee mortality table projected with mortality improvement scale MP-2018. Rates are multiplied by a factor of 0.97 for males and 1.06 for females |

Sources: MSRS Annual Comprehensive Report, June 30, 2021 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2021.

GASB Statements No. 67 and No. 68 actuarial valuation results show that as of June 30, 2021, employers contributing to the MSRS’ largest cost-sharing fund, the State Employees Retirement Fund (the General Employees Retirement Plan), incurred NPL of \$81.5 million. Actuaries determined this amount assuming a long-term expected single discount rate of return of 6.5 percent, an inflation rate of 2.25 percent, a payroll growth rate of 3.00 percent and salary increase assumptions based on service related rates (rates that are dependent on the number of years employed). As a result, employers will report pension income of \$2.098 billion. Lastly, as of the June 30, 2021 measurement date, Fiduciary Net Position as a percentage of the Total Pension Liability was 99.53 percent.

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GASB actuarial valuation results for all of the MSRS pension plans are depicted in the table below. Based on contributions received during Fiscal Year 2021, the State's proportionate share (including its component units: the University of Minnesota, Metropolitan Council, Minnesota Housing Finance Agency, Minnesota Office of Higher Education and the Minnesota Sports Facilities Authority) of the each MSRS defined benefit fund's NPL and Pension Expense/(Income), and related dollar amounts, are also presented below.

MINNESOTA STATE RETIREMENT SYSTEM
GASB STATEMENTS NO. 67 AND NO. 68 ACTUARIAL VALUATION RESULTS
June 30, 2021
(\$ in Thousands)

| Retirement Fund | Total Pension Liability (TPL) | Plan Fiduciary Net Position (FNP) | Net Pension Liability (NPL) | Plan FNP As a % of TPL | State's Proportionate Share | State's Share of NPL | FY2021 Pension Expense / (Income) | State's Share of Pension Expense/ (Income) |
|------------------------|--------------------------------------|--|------------------------------------|-------------------------------|------------------------------------|-----------------------------|--|---|
| State Employees | \$17,521,580 | \$17,440,051 | \$81,529 | 99.53% | 99.423% | \$81,062 | \$(2,098,087) | \$(2,084,348) |
| State Patrol | 1,111,995 | 957,864 | 154,131 | 86.14% | 100.000% | 154,131 | 812 | 812 |
| Correctional Employees | 2,023,040 | 1,580,953 | 442,087 | 78.15% | 99.956% | 441,892 | (122,025) | (121,909) |
| Judges | 429,083 | 276,638 | 152,445 | 64.47% | 100.000% | 152,445 | 4,449 | 4,449 |
| Legislators | 140,796 | 0 | 140,796 | 0.00% | 100.000% | 140,796 | 2,646 | 2,646 |
| Totals | \$21,226,494 | \$20,255,506 | \$970,988 | 95.43 | | \$970,326 | \$(2,212,205) | \$(2,198,350) |

Source: MSRS 2021 Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2021.

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Pension Disclosure in the State’s Financial Statements

The following information from the State’s Financial Statements is being presented due to differences in the Systems’ financial reporting and the State’s financial statement due to the one year lag between the disclosures in Systems’ Annual Comprehensive Financial Reports and the State’s ACFR.

The State contributes as an employer and / or a non-employer contributing entity into certain defined benefit pension trust funds, which are considered qualified trust funds for the purposes of GAAP and include both State administered plans and non-State administered plans.

The State Net Pension Liability (NPL) as an employer and non-employer contributing entity is recorded in the State’s financial statements based on the State’s share of the NPL of the applicable plan. In addition, the State’s share of the effects of changes in certain assumptions are recorded as deferred outflows of resources and deferred inflows of resources and are amortized over the current and future periods.

The following table represents the plans the State contributes to as an employer and/or a non-employer contributing entity that are included in the State’s financial statements.

| <u>Plan Administrator</u> | <u>Plans Covered</u> |
|--|---|
| Minnesota State Retirement System (MSRS) | State Employees Retirement Fund (SERF) Correctional Employees Retirement Fund (CERF) Judges Retirement Fund (JRF) Legislators Retirement Fund (LRF) State Patrol Retirement Fund (SPRF) |
| Public Employees Retirement Association (PERA) | General Employees Retirement Fund (GERF) Police and Fire Fund (P&FF) |
| Teachers Retirement Association (TRA) | Teachers Retirement Fund (TRF) |
| St. Paul Teachers’ Retirement Fund Association | St. Paul Teachers’ Retirement Fund (SPTRF) |

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The following table summarizes the State's share of pension amounts by defined benefit plan.

| Summary of State Pension Amounts | | | | | | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------------|--------------------|--------------------|---------------------|---------------------|------------------------|
| As of June 30, 2021 | | | | | | | | | | | |
| (\$'s in Thousands) | | | | | | | | | | | |
| | State Administered | | | | | Non-State Administered | State Administered | | | | Total for All Plans |
| | Multiple Employer | | | | | Multiple Employer | Single Employer | | | | |
| | SERF ⁽¹⁾ | CERF ⁽¹⁾ | GERF ⁽¹⁾ | P&FF ⁽¹⁾ | TRF ⁽¹⁾ | SPTRF ⁽¹⁾ | JRF ⁽¹⁾ | LRF ⁽¹⁾ | SPRF ⁽¹⁾ | | |
| State's Proportionate Share of the Net Pension Liability as an: | | | | | | | | | | | |
| Employer | \$ 998,968 | \$ 447,093 | \$ 22,051 | \$ 3,635 | \$ 256,907 | \$ 503 | \$ 185,923 | \$ 146,789 | \$ 231,455 | \$ 2,293,324 | |
| Non-Employer Contributing Entity | - | - | 179,348 | 60,676 | 499,032 | 207,016 | - | - | - | 946,072 | |
| Total | \$ 998,968 | \$ 447,093 | \$ 201,399 | \$ 64,311 | \$ 755,939 | \$ 207,519 | \$ 185,923 | \$ 146,789 | \$ 231,455 | \$ 3,239,396 | |
| State's Proportionate Share % of the Net Pension Liability as of: | | | | | | | | | | | |
| Current Year Measurement Date | 75.21% | 99.95% | 3.36% | 4.88% | 10.23% | 31.75% | 100.00% | 100.00% | 100.00% | | |
| Prior Year Measurement Date | 74.94% | 99.87% | 3.43% | 5.40% | 10.65% | 33.77% | 100.00% | 100.00% | 100.00% | | |
| Difference between Expected and Actual Experience | \$ 17,930 | \$ 12,256 | \$ 1,836 | \$ 2,842 | \$ 15,160 | \$ - | \$ 1,051 | \$ - | \$ 1,837 | \$ 52,912 | |
| Changes in Assumption | - | - | - | 21,552 | 271,231 | 9,411 | 2,331 | - | 47,264 | 351,789 | |
| Net Difference Between Projected and Actual Earnings | 47,645 | 7,120 | 3,479 | 1,953 | 11,705 | 16,709 | 1,043 | - | 3,312 | 92,966 | |
| Change in Proportionate Share | 31,383 | 477 | 30,382 | 49,849 | - | 11,372 | - | - | - | 123,463 | |
| Contributions Subsequent to the Measurement Date | 156,738 | 48,662 | 17,720 | 9,586 | 47,696 | 15,691 | 17,915 | 8,639 | 24,809 | 347,456 | |
| Deferred Outflows of Resources | \$ 253,696 | \$ 68,515 | \$ 53,417 | \$ 85,782 | \$ 345,792 | \$ 53,183 | \$ 22,340 | \$ 8,639 | \$ 77,222 | \$ 968,586 | |
| Difference between Expected and Actual Experience | \$ 10,258 | \$ 1,398 | \$ 762 | \$ 3,054 | \$ 11,458 | \$ 6,921 | \$ 1,633 | \$ - | \$ 9,138 | \$ 44,622 | |
| Changes in Assumption | 2,255,214 | 289,622 | 7,467 | 40,108 | 634,593 | 1,507 | - | - | 101,010 | 3,329,521 | |
| Change in Proportionate Share | - | 174 | 9,685 | 7,444 | 109,648 | 8,578 | - | - | - | 135,529 | |
| Deferred Inflows of Resources | \$ 2,265,472 | \$ 291,194 | \$ 17,914 | \$ 50,606 | \$ 755,699 | \$ 17,006 | \$ 1,633 | \$ - | \$ 110,148 | \$ 3,509,672 | |
| Net Pension Expense | \$ 252,702 | \$ 26,112 | \$ 30,127 | \$ 22,574 | \$ 87,954 | \$ 29,431 | \$ 5,303 | \$ 15,410 | \$ 26,067 | \$ 495,680 | |

⁽¹⁾ Proportionate share was determined based on the State's percentage of employer and non-employer contributing entity contributions into the plan.
Source: Actuary and plan administrator reports for the measurement period are utilized in determining the State's proportionate share of pension amounts.

The following table summarizes the actuarial assumptions associated with each defined benefit plan.

| Pension Plans Actuarial Assumptions | | | | | | | | | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------|---------------------------|-----------------------|--------------------|-----------------------------|
| | State Administered | | | | | Non-State Administered | State Administered | | |
| | Multiple Employer | | | | | Multiple Employer | Single Employer | | |
| | SERF ⁽¹⁾ | CERF ⁽²⁾⁽⁴⁾⁽⁵⁾ | GERF ⁽¹⁾ | P&FF ⁽²⁾⁽⁴⁾⁽⁵⁾ | TRF ⁽²⁾ | SPTRF ⁽²⁾ | JRF ⁽²⁾⁽⁴⁾ | LRF ⁽²⁾ | SPRF ⁽²⁾⁽⁴⁾⁽⁵⁾ |
| Actuarial Valuation/ Measurement Date | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 |
| Long-Term Expected Rate | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| 20 Year Municipal Bond Rate ⁽³⁾ | 2.45% | 2.45% | 2.45% | 2.45% | 2.19% | 2.45% | 2.45% | 2.45% | 2.45% |
| Experience Study Dates | 2014 - 2018 | 2011 - 2015 | 2014 - 2018 | 2011 - 2015 | 2014 - 2018 | 2011-2016 | 2011 - 2015 | N/A | 2011 - 2015 |
| Inflation | 2.25% | 2.50% | 2.25% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Salary Increases | Service Related Rates | Service Related Rates | Service Related Rates | Service Related Rates | 2.85 - 9.25% | 3.00 - 9.00% | 2.50% | 4.50% | Service Related Rates |
| Payroll Growth | 3.00% | 3.25% | 3.00% | 3.25% | 3.00% | 3.00% | 2.50% | N/A | 3.25% |
| ⁽¹⁾ For SERF and GERF, the Pub-2010 General Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2018 for SERF, and Scale MP-2019 for GERF. There are various adjustments in each plan to match experience. ⁽²⁾ For CERF, P&FF, TRF, SPTRF, JRF, LRF, and SPRF mortality rate assumptions, the RP-2014 Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2015 for CERF, TRF, JRF, LRF, and SPRF, and Scale MP-2019 for P&FF and SPTRF. There are various adjustments in each plan to match experience. ⁽³⁾ Source: Fidelity Index for SERF, CERF, GERF, P&FF, SPTRF, JRF, LRF, and SPRF, and Bond Buyers for TRF, formerly published by the Board of Governors of the Federal Reserve System. ⁽⁴⁾ The inflation assumption for Fiscal Year 2022 will change to 2.25 percent for CERF, P&FF, JRF, and SPRF. ⁽⁵⁾ The payroll growth assumption for Fiscal Year 2022 will change to 3.00 percent for CERF, P&FF, and SPRF. | | | | | | | | | |

See “APPENDIX F – STATE FINANCIAL STATEMENTS Note 8 - Pension and Investment Trusts” (pages F-92 through F-111) and “Required Supplementary Information” (see pages F-160 through F-174), for additional information on pension disclosures related to the implementation of GASB 68. The State’s Fiscal Year 2021 financial statements and corresponding pension related disclosures and required supplementary information are based on the June 30, 2020 GASB 67 & 68 Actuarial Report.

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The following table presents the NPL for each defined benefit plan with a primary government proportionate share of the NPL, calculated using the corresponding discount rate as well as what the NPL would be if the rate were one percentage point higher or lower.

| State's Proportionate Share | | | | | | |
|---|-----------------------------------|--------------------|-----------------------|--------------------|-----------------------------------|--------------------|
| Sensitivity of the Net Pension Liability to Changes in the Discount Rate | | | | | | |
| As of June 30, 2020 | | | | | | |
| (\$'s in Thousands) | | | | | | |
| | With a 1% Decrease ⁽⁵⁾ | | Current Discount Rate | | With a 1% Increase ⁽⁵⁾ | |
| | Rate | NPL ⁽¹⁾ | Rate | NPL ⁽¹⁾ | Rate | NPL ⁽¹⁾ |
| SERF ⁽⁴⁾ | 6.50% | \$ 2,371,234 | 7.50% | \$ 998,968 | 8.50% | \$ (143,085) |
| CERF ⁽⁴⁾ | 6.50% | 682,316 | 7.50% | 447,093 | 8.50% | 255,125 |
| GERF ⁽⁴⁾ | 6.50% | 322,773 | 7.50% | 201,399 | 8.50% | 101,275 |
| P&FF ⁽⁴⁾ | 6.50% | 128,181 | 7.50% | 64,311 | 8.50% | 11,470 |
| TRF ⁽⁴⁾ | 6.50% | 1,157,335 | 7.50% | 755,939 | 8.50% | 425,209 |
| SPTRF | 6.50% | 271,169 | 7.50% | 207,519 | 8.50% | 154,784 |
| JRF ⁽⁴⁾ | 6.50% | 226,631 | 7.50% | 185,923 | 8.50% | 151,040 |
| LRF ⁽³⁾⁽⁴⁾ | 1.45% | 163,912 | 2.45% ⁽²⁾ | 146,789 | 3.45% | 132,500 |
| SPRF ⁽⁴⁾ | 6.50% | 351,715 | 7.50% | 231,455 | 8.50% | 131,896 |

(1) Net Pension Liability (Asset).

(2) LRF: The municipal bond rate was used for all years.

(3) The discount rate changed from 3.13 percent for LRF.

(4) The discount rate for Fiscal Year 2022 will change to 6.50 percent for SERF, CERF, GERF, P&FF, JRF, and SPRF, 7.00 percent for TRF, and 1.92 percent for LRF.

(5) Source: Plan actuary reports provide sensitivity analysis tables. The State's proportionate share for the measurement period is applied to these tables to determine the amounts reported above.

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POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Other postemployment benefits (OPEB) are available to certain employees of the State, and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes, Section 43A.27, subdivision 3, and Minnesota Statutes, Section 471.61, subdivision 2a, and required under the terms of selected employment contracts. All pre-age-65 State retirees with at least five years of allowable pension service who are entitled at the time of retirement to receive an annuity under the State retirement program are eligible to participate in the State’s health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100 percent of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active State employees, resulting in an implicit rate subsidy.

The State also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at State correctional facilities, and State troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer’s premium contribution rate is frozen at the date of the employee’s retirement and is payable by the State until the retiree is age 65. The retiree is responsible for any other portion of the premiums. Coverage and rate subsidies end at the retiree’s attainment of age 65. The State does not issue a separate financial report for its OPEB as the State does not fund an OPEB plan and operates on a pay-as-you-go basis.

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” which supersedes Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This standard requires changes to the financial statements, notes to the financial statements and required supplementary information. The State implemented GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” for the year ended June 30, 2018.

The following table summarizes the State’s share of other postemployment benefits amounts.

| Summary of State OPEB Amounts | |
|--|-----------------------|
| As of June 30, 2021 | |
| (\$’s in Thousands) | |
| Description | Amount ⁽¹⁾ |
| Total OPEB Liability | \$ 687,901 |
| Changes of Assumption | \$ 89,533 |
| Transactions Subsequent to the Measurement Date | 34,148 |
| Deferred Outflows of Resources | \$ 123,681 |
| Difference between Expected and Actual Experience | \$ 101,517 |
| Changes of Assumption | 19,644 |
| Deferred Inflows of Resources | \$ 121,161 |
| Total OPEB Expense | \$ 60,554 |
| ⁽¹⁾ Amounts represent the primary government’s total proportionate share of 99.7 percent. The remaining 0.3 percent represents a discretely presented component unit’s proportionate share. | |

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The following table summarizes the actuarial assumptions associated with the plan.

| OPEB Plan Actuarial Assumptions | |
|--|-----------------------------|
| Description | OPEB Plan |
| Actuarial Valuation ⁽¹⁾ | July 1, 2020 |
| Measurement Date ⁽¹⁾ | June 30, 2020 |
| Discount Rate: 20 Year Municipal Bond Rate ⁽²⁾ | 2.21% |
| Healthcare Cost Trend Rate | 7.5% reduce to 3.8% by 2071 |
| Experience Study Dates | 2015 – 2019 |
| Inflation | 2.25% |
| Salary Increases | 3.00% |
| ⁽¹⁾ No significant events or material changes in benefit provisions occurred between the actuarial valuation date and the measurement date that required an adjustment to roll-forward of the Total OPEB Liability. | |
| ⁽²⁾ Source: Bond Buyer 20-Bond General Obligation Index. | |

The mortality rate assumptions use the Pub-2010 General Employee Headcount-Weighted Mortality Table with mortality improvement Scale MP-2020 as applicable to the employee group covered.

See “APPENDIX F – STATE FINANCIAL STATEMENTS Note 9 – Termination and Postemployment Benefits” (pages F-112 through F-116) and “Required Supplementary Information” (see pages F-160 through F-174), for additional information on other postemployment benefits disclosures related to the implementation of GASB 75.

The following table presents the State’s share of Total OPEB Liability (TOPEBL) for the plan calculated using the corresponding discount rate as well as what the TOPEBL would be if the rate were one percentage point higher or lower.

| State’s Share Sensitivity of the Total OPEB Liability to Changes in the Discount Rate As of June 30, 2021 (\$’s in Thousands) | | | | | |
|---|------------|-----------------------|------------|-----------------------------------|------------|
| With a 1% Decrease ⁽²⁾ | | Current Discount Rate | | With a 1% Increase ⁽²⁾ | |
| Rate | TOPEBL | Rate ⁽¹⁾ | TOPEBL | Rate | TOPEBL |
| 1.21% | \$ 738,693 | 2.21% | \$ 687,901 | 3.21% | \$ 639,852 |
| ⁽¹⁾ The discount rate changed from 3.5 percent. | | | | | |
| ⁽²⁾ Source: Plan actuary report provides sensitivity analysis table. The State’s proportionate share for the measurement period is applied to the table to determine the amount. | | | | | |

The following table presents the State’s share of Total OPEB Liability (TOPEBL) for the plan calculated using the corresponding healthcare trend rate as well as what the TOPEBL would be if the rate were one percentage point higher or lower.

| State’s Share Sensitivity of the Total OPEB Liability to Changes in the Healthcare Trend Rate As of June 30, 2021 (\$’s in Thousands) | | | | | |
|---|------------|-------------------------------|------------|-----------------------------------|------------|
| With a 1% Decrease ⁽¹⁾ | | Current Healthcare Trend Rate | | With a 1% Increase ⁽¹⁾ | |
| Rate | TOPEBL | Rate | TOPEBL | Rate | TOPEBL |
| 2.8% | \$ 621,775 | 3.8% | \$ 687,901 | 4.8% | \$ 765,869 |
| ⁽¹⁾ Source: Plan actuary report provides sensitivity analysis table. The State’s proportionate share for the measurement period is applied to the table to determine the amount. | | | | | |

APPENDIX C

STATE DEBT

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APPENDIX C

STATE DEBT

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**GENERAL OBLIGATION BONDS OUTSTANDING
AS OF THE DATE OF ISSUE OF THE BONDS
(\$'s in Thousands)**

| <u>Category Type</u> | <u>Principal Amount</u> | |
|---|-----------------------------|---------------------|
| 1 Transportation | \$ 346,869 | |
| Refunding Bonds | 1,224,610 | |
| Various Purpose | <u>2,660,768</u> | |
| Total Category 1 | | 4,232,247 |
| 2 School Loan | \$ 9,559 | |
| Rural Finance Authority | <u>100,514</u> | |
| Total Category 2 | | \$ 110,073 |
| 3 Trunk Highway | \$ 1,889,345 | |
| Trunk Highway Refunding | <u>385,390</u> | |
| Total Category 3 | | <u>\$ 2,274,735</u> |
| Total Outstanding as of the Date of the Bonds | | \$ 6,617,055 |

The full faith and credit and unlimited taxing powers of the State are pledged for the payment of all of the above bonds.

The outstanding bonds comprising the Category 1 are payable primarily from money appropriated to the Debt Service Fund from the General Fund, which is supported by income tax, sales tax, and other receipts. The bonds comprising Category 2 are payable to a substantial degree from money appropriated to the Debt Service Fund from receipts from various special revenue sources. The Category 3, Trunk Highway Bonds, are payable primarily from the Trunk Highway Fund, which receives 58.9 percent of the net proceeds of the State fuel, motor vehicle registration taxes, and a portion of the motor vehicle sales tax, pursuant to the State Constitution and related statutory provisions.

**GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
AS OF THE DATE OF ISSUE OF THE BONDS
(\$'s in Thousands)**

| <u>Purpose of Issue</u> | <u>Law Authorizing</u> | <u>Total</u> | <u>Previously Issued</u> | <u>Previously Issued</u> | <u>Bonds issued</u> | <u>Remaining</u> |
|-------------------------|------------------------|--------------------------------|--------------------------|--------------------------|---------------------------------|----------------------|
| | | <u>Authorization</u> (1)(2) | <u>as Par Bonds</u> | <u>as Premium</u> | <u>Aug. 2022</u> ⁽³⁾ | <u>Authorization</u> |
| Various Purpose | X2002, Ch. 1 | 15,055.0 | 14,755.0 | 0.0 | 0.0 | \$300.0 |
| Various Purpose | 2005, Ch. 20 | 913,664.8 | 913,241.4 | 417.6 | 0.0 | \$5.8 |
| Trunk Highway | 2008, Ch. 152 | 1,779,573.0 | 1,779,573.0 | 0.0 | 0.0 | \$0.0 |
| Various Purpose | 2008, Ch. 179 | 788,149.7 | 785,466.9 | 2,480.1 | 0.0 | \$202.7 |
| Various Purpose | 2009, Ch. 93 | 255,186.9 | 250,536.6 | 3,498.4 | 0.0 | \$1,151.9 |
| Various Purpose | 2010, Ch. 189 | 707,408.0 | 694,527.2 | 12,522.628 | 0.0 | \$358.2 |
| Various Purpose | X2010, Ch. 1 | 30,607.8 | 27,597.1 | 2,255.9 | 0.0 | \$754.8 |
| Various Purpose | X2011, Ch. 12 | 548,049.0 | 524,846.2 | 22,945.6 | 0.0 | \$257.2 |
| Trunk Highway | 2012, Ch. 287 | 17,506.8 | 17,485.0 | 0.0 | 0.0 | \$21.8 |
| Various Purpose | 2012, Ch. 293 | 562,282.3 | 512,150.2 | 47,331.8 | 0.0 | \$2,800.3 |
| Various Purpose | X2012, Ch. 1 | 52,462.670 | 45,716.440 | 6,589.460 | 0.0 | \$156.8 |
| Various Purpose | 2013, Ch. 136 | 171,967.4 | 150,550.4 | 20,349.6 | 525.0 | \$542.4 |
| Various Purpose | 2014, Ch. 294 | 888,259.7 | 734,768.7 | 144,824.3 | 1,900.0 | \$6,766.7 |
| Various Purpose | X2015 Ch. 5 | 189,466.4 | 151,914.4 | 32,975.6 | 3,000.0 | \$1,576.4 |
| Trunk Highway | X2017, Ch. 3 | 940,913.5 | 516,718.0 | 0.0 | 160,000.0 | \$264,195.5 |
| Various Purpose | X2017, Ch. 8 | 1,035,082.8 | 806,855.6 | 176,631.4 | 20,000.0 | \$31,595.8 |
| Various Purpose | 2018, Ch. 214 | 888,699.0 | 628,442.7 | 147,306.3 | 38,500.0 | \$74,450.0 |
| Trunk Highway | 2018, Ch. 214 | 416,608.0 | 48,360.0 | 0.0 | 15,000.0 | \$353,248.0 |
| Various Purpose | 2019, Ch. 2 | 102,402.0 | 60,633.4 | 16,866.7 | 16,000.0 | \$8,902.0 |
| Various Purpose | 2020, Ch. 67 | 50,050.0 | 23,769.1 | 1,255.9 | 10,010.0 | \$15,015.0 |
| Various Purpose | X2020, Ch. 3 | 1,392,315.0 | 374,852.2 | 91,147.8 | 215,000.0 | \$711,315.0 |
| Trunk Highway | X2020, Ch. 3 | 300,300.0 | 58,000.0 | 0.0 | 10,000.0 | \$232,300.0 |
| Trunk Highway | X2021, Ch. 5 | <u>413,413.0</u> | <u>5,000.0</u> | <u>0.0</u> | <u>35,000.0</u> | <u>\$373,413.0</u> |
| Totals | | \$12,459,422.9 | \$9,125,759.4 | \$729,399.1 | \$524,935.0 | \$2,079,329.4 |

(1) Amount as shown reflects any amendments by subsequent session laws.

(2) Minnesota Statutes, Section 16A.642, requires the Commissioner to prepare and present to appropriate legislative committees on or before January 1 of each year, a report on the status of certain bond authorizations which are more than four years old which have been implemented to a certain degree, and of other bond authorizations or bond proceeds balances that may be cancelled due to completion or cancellation of the projects to be financed. Bond authorizations and bond proceeds balances reported on by the Commissioner are cancelled effective the following July 1, unless specifically reauthorized by an act of the Legislature.

(3) Minnesota Statutes 16A.641, subdivision 7(b), allows for the premium, received on the sale of bonds after December 1, 2012, to be deposited to the bond proceeds fund where it is used to reduce the par amount of the bonds issued at the time of the bond sale or to the state bond fund.

**TOTAL STATE GENERAL OBLIGATION BONDS OUTSTANDING BY SERIES
AS OF THE DATE OF ISSUE OF THE BONDS
(\$'s in Thousands)**

| <u>Bond Issue</u> | <u>Original Principal</u> | | <u>Final Maturity after Refunding</u> | <u>Interest Rate Range Outstanding</u> | <u>Outstanding Principal as of Date of Issue</u> | | | |
|--|---------------------------|----------------------|---|--|--|----------------------|------------------------|----------------------|
| | <u>Various Purpose</u> | <u>Trunk Highway</u> | | | <u>Outstanding Principal 06/30/2022</u> | | <u>Issue</u> | |
| | | | | | <u>Various Purpose</u> | <u>Trunk Highway</u> | <u>Various Purpose</u> | <u>Trunk Highway</u> |
| Series 2012A August 16, 2012 | 422,000 | - | 2032 | 2.50% - 5.00% | 140,270 | - | - | - |
| Series 2012B August 16, 2012 | - | 234,000 | 2032 | 2.00% - 5.00% | - | 128,700 | - | 117,000 |
| Series 2013A August 15, 2013 | 273,350 | - | 2033 | 4.00% - 5.00% | 163,990 | - | 150,320 | - |
| Series 2013B August 15, 2013 | - | 200,000 | 2033 | 4.00% - 5.00% | - | 120,000 | - | 110,000 |
| Series 2013D November 6, 2013 | 283,820 | - | 2033 | 3.00% - 5.00% | 167,580 | - | 167,580 | - |
| Series 2013E November 6, 2013 | - | 112,000 | 2033 | 4.00% - 5.00% | - | 67,200 | - | 67,200 |
| Series 2013F November 6, 2013 (Refunding) | 373,940 | - | 2026 | 3.125% - 5.00% | 159,755 | - | 159,755 | - |
| Series 2014A August 21, 2014 | 429,670 | - | 2034 | 5.00% | 276,795 | - | 255,500 | - |
| Series 2014B August 21, 2014 | - | 288,000 | 2034 | 3.00% - 5.00% | - | 187,200 | - | 172,800 |
| Series 2014C August 21, 2014 (Taxable) | 26,040 | - | 2033 | 2.75% - 3.75% | 14,545 | - | 13,330 | - |
| Series 2014D August 21, 2014 (Taxable Refunding) | 28,210 | - | 2032 | 2.43% - 4.00% | 9,555 | - | 8,615 | - |
| Series 2014E August 21, 2014 (Refunding) | - | 123,315 | 2026 | 2.75% - 4.00% | - | 49,300 | - | 37,355 |
| Series 2015A August 19, 2015 | 368,225 | - | 2035 | 5.00% | 254,590 | - | 236,405 | - |
| Series 2015B August 19, 2015 | - | 310,000 | 2035 | 2.95% - 5.00% | - | 217,000 | - | 201,500 |
| Series 2015C August 19, 2015 (Taxable) | 7,200 | - | 2025 | 2.55% - 3.00% | 2,880 | - | 2,160 | - |
| Series 2015D August 19, 2015 (Refunding) | 376,655 | - | 2027 | 5.00% | 223,950 | - | 186,170 | - |
| Series 2015E August 19, 2015 (Refunding) | - | 14,900 | 2027 | 3.00% - 5.00% | - | 8,060 | - | 6,715 |
| Series 2016A August 11, 2016 | 265,890 | - | 2036 | 5.00% | 196,040 | - | 182,970 | - |
| Series 2016B August 11, 2016 | - | 215,000 | 2036 | 2.25% - 5.00% | - | 161,250 | - | 150,500 |
| Series 2016D August 11, 2016 (Refunding) | 310,565 | - | 2029 | 2.25-5.00% | 244,830 | - | 212,190 | - |
| Series 2017A October 11, 2017 | 312,295 | - | 2037 | 5.00% | 250,735 | - | 250,735 | - |
| Series 2017B October 11, 2017 | - | 114,000 | 2037 | 2.25% - 5.00% | - | 91,200 | - | 91,200 |
| Series 2017C October 11, 2017 (Taxable) | 27,000 | - | 2022 | 2.02% | 27,000 | - | 27,000 | - |
| Series 2017D October 11, 2017 (Refunding) | 323,770 | - | 2030 | 3.00% - 5.00% | 273,350 | - | 273,350 | - |
| Series 2017E October 11, 2017 (Refunding) | - | 81,110 | 2029 | 3.00% - 5.00% | - | 56,430 | - | 56,430 |
| Series 2018A August 21, 2018 | 397,720 | - | 2038 | 5.00% | 338,740 | - | 319,080 | - |
| Series 2018B August 21, 2018 | - | 206,000 | 2038 | 3.00% - 5.00% | - | 175,100 | - | 164,800 |
| Series 2018C August 21, 2018 (Taxable) | 16,000 | - | 2028 | 3.39% | 16,000 | - | 16,000 | - |
| Series 2019A August 20, 2019 | 406,900 | - | 2039 | 5.00% | 366,660 | - | 346,540 | - |
| Series 2019B August 20, 2019 | - | 190,690 | 2039 | 3.00% - 5.00% | - | 171,620 | - | 162,085 |
| Series 2019C August 20, 2019 (Taxable) | 36,345 | - | 2029 | 1.95% - 3.00% | 32,075 | - | 29,940 | - |
| Series 2019D August 20, 2019 (Refunding) | 27,570 | - | 2029 | 5.00% | 18,350 | - | 13,770 | - |
| Series 2020A August 25, 2020 | 330,360 | - | 2040 | 5.00% | 314,065 | - | 297,770 | - |
| Series 2020B August 25, 2020 | - | 152,020 | 2040 | 1.50 - 4.00% | - | 144,415 | - | 136,810 |
| Series 2020C August 25, 2020 (Taxable) | 20,515 | - | 2029 | 1.35% | 20,515 | - | 20,515 | - |
| Series 2020D August 25, 2020 (Refunding) | 128,115 | - | 2024 | 5.00% | 97,235 | - | 60,505 | - |
| Series 2020E August 25, 2020 (Refunding) | - | 163,380 | 2030 | 2.00% - 3.00% | - | 145,580 | - | 117,260 |
| Series 2020F August 25, 2020 (Taxable Refunding) | 223,970 | - | 2031 | 0.47% - 1.35% | 223,970 | - | 203,595 | - |
| Series 2020G August 25, 2020 (Taxable Refunding) | - | 180,190 | 2032 | 0.40% - 1.32% | - | 180,190 | - | 167,630 |
| Series 2021A September 23, 2021 | 565,150 | - | 2041 | 4.00% - 5.00% | 565,150 | - | 536,890 | - |
| Series 2021B September 23, 2021 | - | 311,000 | 2041 | 1.625% - 5.00% | - | 311,000 | - | 295,450 |
| Series 2022A August 23, 2022 | 251,775 | - | 2042 | 5.00% | - | - | 251,775 | - |
| Series 2022B August 23, 2022 | - | 220,000 | 2042 | 3.25% - 5.00% | - | - | - | 220,000 |
| Series 2022C August 23, 2022 (Taxable) | 9,200 | - | 2032 | 4.00% | - | - | 9,200 | - |
| Series 2022D August 23, 2022 (Refunding) | 106,660 | - | 2032 | 5.00% | - | - | 106,660 | - |
| Totals for Date: | 6,348,910 | 3,115,605 | | | 4,398,625 | 2,214,245 | 4,338,320 | 2,274,735 |

The following table shows all debt service payments for outstanding general obligation bonds as of the date of this Official Statement.

**DEBT SERVICE PAYMENTS ON GENERAL OBLIGATION BONDS
OUTSTANDING AS OF THE DATE OF ISSUE OF THE BONDS⁽¹⁾
(\$'s in Thousands)**

| Fiscal Year | General Fund | | | Trunk Highway Fund | | |
|------------------------|---------------------|---------------------|---------------------|---------------------------|-------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2023 | 139,375 | 108,266 | 247,641 | 18,675 | 38,755 | 57,430 |
| 2024 | 398,710 | 167,689 | 566,399 | 185,445 | 65,196 | 250,641 |
| 2025 | 383,975 | 149,546 | 533,521 | 177,035 | 58,500 | 235,535 |
| 2026 | 359,045 | 132,817 | 491,862 | 168,685 | 51,942 | 220,627 |
| 2027 | 330,930 | 117,480 | 448,410 | 159,720 | 45,782 | 205,502 |
| 2028 | 319,555 | 102,853 | 422,408 | 155,960 | 40,041 | 196,001 |
| 2029 | 302,005 | 89,339 | 391,344 | 153,750 | 34,662 | 188,412 |
| 2030 | 283,915 | 77,388 | 361,303 | 149,645 | 29,617 | 179,262 |
| 2031 | 268,195 | 66,213 | 334,408 | 144,655 | 24,704 | 169,359 |
| 2032 | 214,370 | 56,035 | 270,405 | 132,845 | 19,934 | 152,779 |
| 2033 | 193,855 | 46,721 | 240,576 | 116,635 | 15,630 | 132,265 |
| 2034 | 181,100 | 37,872 | 218,972 | 104,935 | 11,810 | 116,745 |
| 2035 | 152,260 | 29,949 | 182,209 | 89,335 | 8,736 | 98,071 |
| 2036 | 130,965 | 23,151 | 154,116 | 74,935 | 6,437 | 81,372 |
| 2037 | 112,775 | 17,339 | 130,114 | 59,435 | 4,646 | 64,081 |
| 2038 | 99,705 | 12,311 | 112,016 | 48,685 | 3,240 | 51,925 |
| 2039 | 84,320 | 7,992 | 92,312 | 42,980 | 2,040 | 45,020 |
| 2040 | 64,665 | 4,550 | 69,215 | 32,680 | 1,129 | 33,809 |
| 2041 | 44,545 | 2,103 | 46,648 | 23,150 | 538 | 23,688 |
| 2042 | 28,255 | 565 | 28,820 | 15,550 | 156 | 15,706 |
| | <u>\$ 4,092,520</u> | <u>\$ 1,250,179</u> | <u>\$ 5,342,699</u> | <u>\$ 2,054,735</u> | <u>\$ 463,495</u> | <u>\$ 2,518,230</u> |

⁽¹⁾ FY 2023 debt service excludes amounts paid prior to the date of issue of the Bonds.

For additional information on State general obligation bonds and other long term liabilities of the State, refer to "APPENDIX F – STATE FINANCIAL STATEMENTS".

Note 10 – Long-Term Commitments (see page F-117)

Note 11 – Operating Lease Agreements (see page F-118)

Note 12 – Long-Term Liabilities (see pages F-119 through F-132).

The table shows the net debt service transfer amounts for the following fiscal years.

**NET AMOUNT TRANSFERRED TO DEBT SERVICE FUND
FOR GENERAL OBLIGATION BONDS DEBT SERVICE⁽¹⁾**
(**\$'s in thousands**)

| In Fiscal Year | General Fund | Trunk Highway Fund | All Other Funds⁽²⁾ | Transfer Total |
|---------------------------|---------------------|-------------------------------|--|---------------------------|
| 2013 | 222,584 | 120,305 | 69,133 | \$412,022 ⁽³⁾ |
| 2014 | 619,935 | 136,488 | 53,685 | \$810,108 |
| 2015 | 623,060 | 154,593 | 47,607 | \$825,260 |
| 2016 | 609,285 | 180,725 | 45,757 | \$835,767 |
| 2017 | 529,215 | 193,539 | 109,133 | \$831,887 |
| 2018 | 563,171 | 211,009 | 42,801 | \$816,981 |
| 2019 | 549,785 | 214,903 | 42,991 | \$807,679 |
| 2020 | 540,081 | 209,821 | 44,258 | \$794,160 |
| 2021 | 515,544 | 177,571 | 45,776 | \$738,891 |
| 2022 | 592,426 | 213,138 | 45,040 | \$850,604 |
| 2023 (est) | 604,322 | 261,929 | 40,529 | \$906,780 |
| 2024 (est) | 627,160 | 285,955 | 41,381 | \$954,496 |

⁽¹⁾The Net Transfer amount is net of investment earnings in the Debt Service Fund and Bond Proceeds Fund and bond premiums received from new bond issuances which are also appropriated to pay debt service on State general obligation bonds.

⁽²⁾The All Other Funds category is made up of the debt service funding requirement paid by the higher education systems of the University of Minnesota, the Minnesota State Colleges and Universities, Rural Finance Authority and others.

⁽³⁾The debt service transfer for FY 2013 is lower than subsequent fiscal years as a result of the application of proceeds of tobacco securitization bonds which were used to refund, in part, and prepay certain general obligation indebtedness of the State.

CAPITAL INVESTMENT GUIDELINES

Minnesota Statutes, Section 16A.105 requires the Commissioner of Management and Budget 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 percent 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 six percent of State personal income.
3. 40 percent of general obligation debt shall be due within five years and 70 percent within ten years, if consistent with the useful life of the financed assets and market conditions.

The capital investment 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⁽¹⁾ are recognized; and
- Continue Minnesota's conservative financial management practices.

The capital investment guidelines are intended to be a current fiscal year "point in time" calculation. Total State personal income is derived from the IHS Economics data used to develop the February 2022 Forecast and reflects the State's 2022 Fiscal Year.

As of February 28, 2022, the last date of calculation, MMB was in compliance with the capital investment guidelines. The percentages as of that date were:

Guideline #1: Tax-supported principal outstanding as a percent of State personal income: 2.20 percent

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of State personal income: 3.60 percent

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2021, 42.3 percent were scheduled to mature within five years and 75.0 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds outstanding on June 30, 2022, 42.2 percent were scheduled to mature within five years and 74.3 percent were scheduled to mature with ten years.

⁽¹⁾Tax-supported debt obligations includes all of the State's general obligation bonds and the obligations summarized under "CONTINGENT LIABILITIES," in the descriptions titled "State Continuing Appropriations," "Lease Purchase Financing for Equipment," and "Lease Purchase Financing for Real Estate" in this APPENDIX C.

MARKET VALUE OF TAXABLE PROPERTY

The market value, as defined by statute, of taxable real and personal property in the State, based upon the January 2021 valuation, was estimated by the Commissioner of Revenue to be \$810,816,101,000. This value is based upon certified Property Record Information System of Minnesota (PRISM) adjusted assessment submissions from local assessors and on file with the Commissioner of Revenue. The values shown represent the value of real and personal property in the State subject to ad valorem taxation.

**MARKET VALUE OF TAXABLE PROPERTY
(\$ in Thousands)**

| Year of Assessment | Real Property | Personal Property | Total Market Value | Percentage Change from Prior Year |
|---------------------------|----------------------|--------------------------|---------------------------|--|
| 2012 | \$509,008,895 | \$7,294,854 | \$516,303,749 | (1.16)% |
| 2013 | 538,667,874 | 7,639,228 | 546,307,102 | 5.81 |
| 2014 | 584,994,974 | 8,223,550 | 593,218,524 | 8.59 |
| 2015 | 602,497,413 | 9,131,285 | 611,628,698 | 3.10 |
| 2016 | 622,191,903 | 9,956,138 | 632,148,041 | 3.35 |
| 2017 | 652,152,583 | 10,406,895 | 662,559,478 | 4.81 |
| 2018 | 689,525,713 | 10,942,242 | 700,467,955 | 5.65 |
| 2019 | 729,187,563 | 10,370,038 | 739,557,601 | 5.58 |
| 2020 | 765,234,223 | 11,561,794 | 776,796,018 | 5.04 |
| 2021 | 800,340,712 | 10,475,389 | 810,816,101 | 4.38 |

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CONTINGENT LIABILITIES

State Continuing Appropriations

Below is a description of continuing appropriations from the General Fund. Pursuant to Minnesota law, each of these continuing appropriations may be reduced or repealed entirely by a majority vote of the Legislature and is subject to unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152.

Minnesota Department of Management and Budget. The 2011 Legislature authorized, in Minnesota Statutes, Section 16A.99, the issuance of State appropriation refunding bonds. MMB issued \$656,220,000 aggregate principal amount of State General Fund Appropriation Refunding Bonds, Taxable Series 2012A and Tax-Exempt Series 2012B (the “State Appropriation Refunding Bonds”). Net proceeds of the State Appropriation Refunding Bonds were applied to the prepayment and refunding of tobacco securitization bonds, originally issued in 2011. As of the date of this Official Statement, there are \$357,055,000 of State Appropriation Refunding Bonds outstanding. The Bonds are being issued for the purpose of refunding these outstanding bonds.

The 2012 Legislature authorized, in Minnesota Statutes, Section 16A.965, the issuance of State appropriation bonds. MMB issued \$462,065,000 aggregate principal amount of State General Fund Appropriation Bonds, Tax-Exempt Series 2014A and Taxable Series 2014B (the “Minnesota Sports Facility Authority State Appropriation Bonds”). Net proceeds of the State Appropriation Bonds were applied to the financing of a portion of the costs of acquisition, construction, improving and equipping of the professional football stadium project of the Minnesota Sports Facility Authority as provided by Minnesota Statutes, Chapter 473J. As of the date of this Official Statement, there are \$388,050,000 of the Minnesota Sports Facility Authority State Appropriation Bonds outstanding. The project is in downtown Minneapolis and was completed for the 2016 National Football League season.

The 2013 Legislature authorized the Commissioner of Administration to enter into a long-term lease purchase agreement for a Legislative Office Facility that provides office and hearing room space as well as parking for the Legislature. The same legislation also authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to finance the pre-design, design, and construction and equipping of the building and parking facilities. Certificates of Participation were issued in August 2014 in the amount of \$80,100,000 for this project. As of the date of this Official Statement, there are \$65,270,000 of the Certificates of Participation outstanding. The lease purchase agreement must not be terminated, except for non-appropriation in respect of lease rental payments.

Pursuant to the Minnesota Statutes, Section 16A.967, the Commissioner of MMB may sell State appropriation bonds to finance the land acquisition, design, engineering, easement acquisition and construction of facilities and infrastructure necessary to complete the Lewis and Clark Regional Water System project, including completion of a water transmission pipeline in southwest Minnesota and related facilities to fund up to \$22,500,000 in project costs (“Lewis and Clark State Appropriation Bonds”). The State issued \$11,790,000 of Lewis and Clark State Appropriation Bonds in November 2016 and an additional \$7,570,000 of Lewis and Clark State Appropriation Bonds in November 2017. As of the date of this Official Statement, there are \$14,410,000 of Lewis and Clark State Appropriation Bonds outstanding.

The 2019 Legislature authorized, in Minnesota Statutes, Section 16A.968, the Commissioner of MMB to issue State appropriation bonds for the purpose of financing up to \$97,720,000 of public infrastructure projects to facilitate redevelopment within a newly created regional exchange district in the City of Duluth (“Duluth Public Infrastructure State Appropriation Bonds”). The State issued \$66,300,000 of Duluth Public Infrastructure State Appropriation Bonds in November 2020 to finance \$64,810,000 in project costs, of which \$66,300,000 of par amount is outstanding as of the date of this Official Statement. In November 2021, the State issued \$52,515,000 of State general fund various purpose appropriation bonds (“2021A Various Purpose Appropriation Bonds”), \$6,920,000 of which were issued to finance \$7,090,000 of additional project costs. As of the date of this Official Statement, there are \$6,920,000 of these bonds outstanding.

The 2020 Legislature authorized, in Minnesota Statutes, Section 16A.963, the Commissioner of MMB to issue State appropriation bonds for the purpose of financing up to \$2,000,000 for the cost of acquiring and installing electric vehicle charging infrastructure on state-owned property (“EV Infrastructure Project”). Of the \$52,515,000 2021A Various Purpose Appropriation Bonds issued by the State in November 2021, \$1,875,000 were issued to

finance \$2,000,000 of EV Infrastructure Project costs. As of the date of this Official Statement, there are \$1,875,000 of these bonds outstanding.

The 2020 Legislature authorized, in Minnesota Statutes, Section 16A.964, the Commissioner of MMB to issue State appropriation bonds for the purpose of financing up to \$15,000,000 for grants to public television stations in Minnesota for the cost of acquiring and installing various items of capital equipment (“Public TV Project”). Of the \$52,515,000 2021A Various Purpose Appropriation Bonds issued by the State in November 2021, \$14,050,000 were issued to finance \$15,000,000 of Public TV Project costs. As of the date of this Official Statement, there are \$14,050,000 of these bonds outstanding.

The 2020 Legislature authorized, in Minnesota Statutes, Section 16A.966, the Commissioner of MMB to issue State appropriation bonds for the purpose of financing up to \$30,400,000 for the cost of implementing environmental clean-up actions at four Superfund sites in Minnesota (“Environmental Response Project”). Of the \$52,515,000 2021A Various Purpose Appropriation Bonds issued by the State in November 2021, \$29,670,000 were issued to finance \$30,400,000 of Environmental Response Project costs. As of the date of this Official Statement, there are \$29,670,000 of these bonds outstanding.

The 2021 Legislature authorized the Commissioner of Administration to enter into a long-term lease purchase agreement for capital expenditures that address identified critical health, life safety, and security needs of buildings located on the State Capitol complex that were constructed before 1940. The same legislation also authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to fund the lease purchase agreement. The legislation states the lease-purchase agreement must not be terminated, except for non-appropriation of money. Planning for eligible projects began in 2021, with the design scoping process expected to be completed by Fall 2022. The exact timing and size of any issuance(s) is not currently known, however it is anticipated that the initial funding would not occur until the Fall of 2023.

University of Minnesota. The Legislature approved State financial assistance for a 50,000-seat, on-campus football stadium for the University of Minnesota (the “U of M”). In 2006, the Legislature appropriated from the General Fund \$10,250,000 in each of not more than 25 years, beginning in 2008, to the U of M for the payment of special purpose revenue bonds issued by the U of M to finance a portion of the stadium. The U of M issued \$137,250,000 Special Purpose Revenue Bonds (State Supported Stadium Debt), Series 2006 (“Series 2006 Stadium Bonds”) for the stadium in December 2006. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M. Pursuant to Minnesota Statutes, Section 137.54, in August 2015, U of M issued the Series 2015A Special Purpose Revenue Refunding Bonds (“Series 2015A Refunding Stadium Bonds”) to refund the outstanding Series 2006 Stadium Bonds. In addition, per the Legislation, the Board of Regents allocated sufficient funds from the savings realized from the refunding to provide \$10,000,000 to finance the predesign and design of improved health education and clinical research facilities for the Medical School and the Academic Health Center. As of the date of this Official Statement, there are \$53,095,000 of the Series 2015A Refunding Stadium Bonds outstanding.

The Minnesota Legislature approved State financial assistance for up to four Biomedical Science Research Facilities for the U of M. In 2008, the Legislature appropriated from the General Fund amounts ranging from \$850,000 to \$15,550,000 in each year beginning in 2010. In 2020, the Legislature amended the maximum amount to \$13,930,000 in each year beginning Fiscal Year 2021 and each year thereafter through Fiscal Year 2039 to reflect actual debt service obligations for the payment of revenue bonds issued by the U of M to finance the facilities. Transfers from the General Fund to the U of M are conditioned upon satisfaction of certain requirements by the U of M. The U of M issued State secured appropriation bonds for the Biomedical Science Research Facilities in the amount of \$111,400,000 in September 2010, \$52,485,000 in October 2011, and \$35,395,000 in November 2013 (together, the “State Supported Biomedical Science Bonds”). In 2020, the Legislature also amended the authorizing statutes to allow the U of M to refund bonds that were issued for a project before January 1, 2019, if refunding was determined to be in the best interest of the U of M. The U of M issued special purpose revenue refunding bonds in the principal amount of \$123,485,000 in September 2021 to refund and/or defease the outstanding State Supported Biomedical Science Bonds (“2021 Refunding State Supported Biomedical Science Bonds”). As of the date of this Official Statement, there are \$117,200,000 of the 2021 Refunding State Supported Biomedical Science Bonds outstanding.

Minnesota Housing Finance Agency (“MHFA”). The Minnesota Legislature created a program to finance the construction, acquisition, preservation, and rehabilitation of permanent supportive housing for individuals and families who are homeless or at risk of homelessness and of foreclosure or vacant housing to be used for affordable rental housing. In 2008, the Legislature appropriated from the General Fund up to \$2,400,000 per year in each of 20 years, beginning in Fiscal Year 2010, to MHFA for the payment of nonprofit housing bonds issued by MHFA for the program. MHFA issued \$13,270,000 of bonds to finance this program in 2009 and an additional \$21,750,000 in 2011. As of the date of this Official Statement, there are \$17,515,000 of the MHFA nonprofit housing bonds outstanding.

In 2012, the Legislature created a new program authorizing MHFA to issue housing infrastructure bonds for the purpose of financing the construction, acquisition, improvement, rehabilitation, adaptive reuse, or new construction of permanent supportive housing, affordable rental housing, community land trust land leased to low- and moderate-income buyers, federally assisted rental housing, single-family housing, senior housing, and manufactured home parks, and any additional purposes as authorized by the Legislature from time to time (the “HIB Act”). The 2012 Legislature also authorized MHFA to issue up to \$30,000,000 of housing infrastructure bonds and appropriated from the General Fund up to \$2,200,000 per year beginning in Fiscal Year 2014 through Fiscal Year 2036 to MHFA for the payment of these bonds. MHFA issued \$15,460,000 of the \$30,000,000 in bonds as authorized in this legislation in 2013 and an additional \$14,540,000 in 2014. As of the date of this Official Statement, there are \$20,030,000 of these MHFA housing infrastructure bonds outstanding.

In 2014, the Legislature authorized MHFA to issue an additional \$80,000,000 of housing infrastructure bonds, which the 2017 Legislature increased to \$95,000,000, and appropriated from the General Fund up to \$6,400,000 per year beginning in Fiscal Year 2016 through Fiscal Year 2038 to MHFA for the payment of these bonds. MHFA issued \$37,570,000 of housing infrastructure bonds in February 2015, \$31,095,000 in September 2015, \$11,335,000 in September of 2016, \$12,690,000 in October 2017 and \$1,130,000 in September 2018. As of the date of this Official Statement, there are \$69,810,000 of these MHFA housing infrastructure bonds outstanding.

In 2015, the Legislature authorized MHFA to issue an additional \$10,000,000 of housing infrastructure bonds, which the 2017 Legislature increased to \$15,000,000 and appropriated from the General Fund up to \$800,000 per year beginning in Fiscal Year 2018 through Fiscal Year 2039 to MHFA for the payment of these bonds. MHFA issued \$7,290,000 of these housing infrastructure bonds in September 2016 and \$4,980,000 in September 2018. As of the date of this Official Statement, there are \$9,885,000 of these MFHA housing infrastructure bonds outstanding.

In 2017, and as amended in 2018, the Legislature authorized MHFA to issue an additional \$35,000,000 of housing infrastructure bonds and appropriated from the General Fund up to \$2,800,000 per year beginning in Fiscal Year 2020 through Fiscal Year 2041 to MHFA for the payment of these bonds. MHFA issued \$19,185,000 of housing infrastructure bonds in September 2018 and \$15,815,000 in September 2019. As of the date of this Official Statement, there are \$29,760,000 of these MHFA housing infrastructure bonds outstanding.

In 2018, the Legislature authorized MHFA to issue an additional \$80,000,000 of housing infrastructure bonds and appropriated from the General Fund to MHFA in each fiscal year, beginning in Fiscal Year 2021 through Fiscal Year 2042, an amount sufficient to pay debt service on those bonds outstanding. MHFA issued \$10,960,000 of these housing infrastructure bonds in September 2019, \$64,525,000 of these housing infrastructure bonds in September 2020, and \$4,515,000 of these housing infrastructure bonds in September 2021. As of the date of this Official Statement, there are \$74,655,000 of these MHFA housing infrastructure bonds outstanding.

In 2019, the Legislature authorized MHFA to issue an additional \$60,000,000 of housing infrastructure bonds and appropriated from the General Fund to MHFA in each fiscal year, beginning in Fiscal Year 2023 through Fiscal Year 2044, an amount sufficient to pay debt service on those bonds that are outstanding. MHFA issued \$43,755,000 of these housing infrastructure bonds in September 2020 and \$16,245,000 of these housing infrastructure bonds in September 2021. As of the date of this Official Statement, there are \$58,260,000 of these MHFA housing infrastructure bonds outstanding.

In 2020, the Legislature authorized MHFA to issue an additional \$100,000,000 of housing infrastructure bonds and appropriated from the General Fund to MHFA in each fiscal year, beginning in Fiscal Year 2023 through Fiscal Year 2044, an amount sufficient to pay debt service on those bonds that are outstanding. MHFA issued \$56,210,000 of these housing infrastructure bonds in September 2021, and \$43,790,000 of these housing

infrastructure bonds in September 2022. As of the date of this Official Statement, there are \$98,490,000 of these MHFA housing infrastructure bonds outstanding.

In 2021, the Legislature authorized MHFA to issue an additional \$100,000,000 of housing infrastructure bonds and appropriated from the General Fund to MHFA in each fiscal year, beginning in Fiscal Year 2024 through Fiscal Year 2045, an amount sufficient to pay debt service on those bonds that are outstanding. MHFA issued \$60,405,000 of these housing infrastructure bonds in September 2022. As of the date of this Official Statement, there are \$60,405,000 of these MHFA housing infrastructure bonds outstanding.

Lease Purchase Financing For Equipment

The Commissioner of Management and Budget is authorized by Minnesota Statutes, Section 16A.85, to establish a master lease equipment financing program. Pursuant to this authority the Commissioner of Management and Budget has entered into master lease agreements providing for equipment financing and expects to continue this practice. As of June 30, 2022, \$36,631,883 of principal is outstanding and unpaid under the master lease program. The master leases and the State's obligation to make rental payments thereunder are not general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments thereunder only to the extent moneys are appropriated from time to time for this purpose.

The Minnesota Department of Commerce is authorized by Minnesota Statutes, Section 16C.144 to establish the Guaranteed Energy Savings Program ("GESp") that utilizes Energy Performance Contracts. The projects, the implementation of energy efficient and renewable energy measures in public facilities by State government agencies, including Minnesota State, will be financed through lease purchase agreements. Payments for the lease purchase will be made through the energy and operational savings achieved by the projects. As of June 30, 2022, \$26,835,198 of principal is outstanding and unpaid under the GESp program.

Various State agencies, with the Commissioner of Management and Budget's assistance, have entered into individual equipment lease financing agreements from time to time for the purpose of financing the acquisition of equipment not financeable under the master lease statute. As of the date of this Official Statement, principal in the amount of \$3,500,000 is outstanding under such equipment leases. The nature of the State's obligation to make rental payments under these equipment leases is the same as under the master leases described above.

Lease Purchase Financing For Real Estate

On November 1, 2002, the Port Authority of Saint Paul and the State entered into two separate Lease and Option to Purchase Agreements. Under the Lease and Option to Purchase Agreements, the Port Authority has agreed, under certain conditions, to issue bonds to finance the design of and to construct, equip, and furnish two office buildings and related parking facilities, and to lease the buildings and related parking facilities to the State. The buildings are approximately 400,000 square feet and 342,000 square feet in size. The amount of bonds originally sold to finance both of the facilities was \$193,105,000. In August 2008 the amount of \$3,210,000 was defeased thereby reducing the State's liability. In May 2013 the balance of the original bond issues were refunded. As of the date of this Official Statement, there are \$36,520,000 of Port Authority refunding bonds outstanding. The State's obligation to make rent payments is not a general or moral obligation indebtedness of the State; rather the State is obligated to make rental payments only to the extent moneys are appropriated from time to time for this purpose. The Legislature appropriated an annual rental payment from the General Fund up to \$13,500,000 per year in each of 20 years, beginning in 2004.

School District Credit Enhancement Program

Minnesota Statutes, Section 126C.55 establishes a school district credit enhancement program. The law authorizes and directs the Commissioner of MMB, under certain circumstances and subject to the availability of funds, to issue a warrant and authorize the Commissioner of Education to pay debt service due on school district and intermediate school district certificates of indebtedness issued under Minnesota Statutes, Section 126C.52, certificates of indebtedness and capital notes for equipment, certificates of participation issued under Minnesota Statutes, Section 126C.40, subdivision 6, and school district and intermediate school district general obligation bonds, in the event that the school district or intermediate school district notifies the Commissioner of Education that

it does not have sufficient money in its debt service fund for this purpose, or the paying agent informs the Commissioner of Education that it has not received from the school district timely payment of moneys to be used to pay debt service. The legislation appropriates annually from the General Fund to the Commissioner of Education the amounts needed to pay any warrants which are issued.

The amounts paid on behalf of any school district or intermediate school district are required to be repaid by it with interest, by a reduction in State aid payable to the school district or intermediate school district or the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education. Furthermore, the State is subrogated to the rights of a school district or intermediate school district in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the district in full.

Under Minnesota Statutes, Section 126C.52, school districts and intermediate school districts are authorized to issue tax and State aid anticipation certificates of indebtedness in amounts not exceeding 75 percent of ad valorem taxes in the process of collection and 75 percent of State aids in the process of collection. As of August 31, 2022, there are approximately \$5,315,000 of aid anticipation certificates of indebtedness enrolled in the program all of which will mature within a 14 month period. The State expects that school districts and intermediate school districts will issue certificates of indebtedness next year and will enroll these certificates in the program in about the same amount of principal as this year.

School districts and intermediate school districts may issue certificates of indebtedness or capital notes to purchase certain equipment. The certificates or notes may be issued by resolution of the board, must be payable in not more than ten years, and are payable from school district and intermediate school district taxes levied within statutory limits.

Under Minnesota Statutes, Section 126C.40, subdivision 6, certain school districts, with the approval of the Commissioner of Education, may issue certificates of participation in installment contracts for the purchase of real or personal property or in lease purchase agreements for the lease with option to purchase of real or personal property. Such certificates of participation, contracts and agreements are not general obligations of such school districts, but are payable from taxes levied annually in amounts necessary to pay the amounts due thereunder.

School districts and intermediate school districts are authorized to issue general obligation bonds only when authorized by school district and intermediate school districts electors or special law, and only after levying a direct, irrevocable ad valorem tax on all taxable property in the school district or intermediate school district for the years and in amounts sufficient to produce sums not less than 105 percent of the principal of and interest on the bonds when due.

As of August 31, 2022, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2050, is approximately \$17,200,000,000. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of August 31, 2022 is currently estimated at \$1,100,000,000, with the maximum amount of principal and interest payable in any one month being \$1,025,000,000. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts.

Minnesota Laws 2005, Chapter 152, Article 1, Section 39, as amended by Minnesota Laws 2006, Chapter 259, Article 12, Section 15, provides that the Commissioner of Iron Range Resources and Rehabilitation Board (“IRRRB”) shall issue revenue bonds payable from certain taconite production tax revenues in a total principal amount of \$15,000,000, plus costs of issuance relating thereto, for the purpose of making grants to school districts located in the taconite relief area or taconite assistance area, as statutorily defined, to be used by such school districts for health, safety, and maintenance improvements. Bonds issued under this program are debt obligations subject to the school district credit enhancement program, provided that advances made by the State are not subject to the provisions of the school district credit enhancement program requiring the levy of an ad valorem tax by affected

school districts in order to repay the State. Minnesota Laws 2013, Chapter 143 authorized the issuance of an additional \$38,000,000 in revenue bonds for the same purpose as previously authorized. The IRRRB issued \$37,830,000 of these bonds in October 2013 for this program. As of the date of this Official Statement, there are \$25,645,000 of the bonds outstanding.

City and County Credit Enhancement Program

Minnesota Statutes, Section 446A.086, establishes a city and county bond credit enhancement program. The law authorizes and directs the Commissioner of MMB, under certain circumstances and subject to the availability of funds, to issue a warrant and authorizes the Minnesota Public Facilities Authority (“MPFA”) to pay debt service coming due on: (a) county general obligation bonds, bonds to which the general obligation of a county has been pledged, and certain lease obligations, to provide funds for the construction of (i) jails, (ii) correctional facilities, (iii) law enforcement facilities, (iv) social services and human services facilities; (v) solid waste facilities; or (vi) qualified housing development projects; or (b) city or county general obligation bonds to provide funds for the construction, improvement, or rehabilitation of (i) wastewater facilities, (ii) drinking water facilities, (ii) storm water facilities, or (iv) any publicly owned building or infrastructure improvement that has received partial funding from grants awarded by the Commissioner of Employment and Economic Development related to redevelopment, contaminated site cleanup, bioscience, small cities development programs, and rural business infrastructure programs, for which bonds are issued by the MPFA under Minnesota Statutes, Section 446A.087. See “*Minnesota Public Facilities Authority (“MPFA”)*” in this APPENDIX C for more information on MPFA bonds that may be credit enhanced under this program.

To be eligible for the program, a city or county must have entered into an agreement with the MPFA, which requires notifications to the MPFA by the city or county and paying agent when funds are not sufficient to timely pay all or a portion of debt service on obligations issued under the program. The MPFA must notify the Commissioner of Management and Budget of potential defaults, and the Commissioner of MMB then must issue a warrant and authorize the MPFA to pay to the bondholders or paying agent the amount necessary to pay in full debt service on credit-enhanced bonds when due. The law appropriates annually from the General Fund to the MPFA the amounts needed to pay any warrants issued by the Commissioner of MMB for this purpose. The amount of debt outstanding under this program may not exceed \$1,000,000,000.

The amounts paid on behalf of any city or county are required to be repaid to the State with interest, either through a reduction of subsequent State-aid payments or by the levy of an ad valorem tax, which may be made with the approval of the MPFA, or will be made mandatory by the MPFA if the State is not repaid in full by November 30 of the following calendar year. Furthermore, the State is subrogated to the rights of a city or county in federal interest subsidy payments, if any, relating to the interest paid by the State under this program, unless and until the State has been reimbursed by the city or county in full.

As of August 31, 2022, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2052, is approximately \$734,600,000. More bonds are expected to be enrolled in the program and these amounts are expected to increase. Based upon the bonds enrolled in the program, during Fiscal Year 2023 the total amount of principal and interest outstanding as of August 31, 2022 is \$48,100,000 with the maximum amount of principal and interest payable in any one month currently estimated at \$30,700,000.

Over the last ten years the State has made one debt service payment under the program in the amount of \$603,000 on behalf of the City of Williams (the “City”). In 2018, the City fully repaid the State. The State does not expect to make any other debt service payments on behalf of cities or counties under the program in the future. If such payments are made, the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the cities or counties.

OBLIGATIONS OF STATE AGENCIES

The University of Minnesota, established as a separate entity by the Minnesota Constitution, and various State agencies or instrumentalities established by the Legislature, are authorized by law to issue various forms of obligations. These obligations may be supported by the full faith and credit of the University or the other issuer, or by various revenue pledges, or both. However, such obligations are not debts of the State and the State is not required to provide moneys for their payment. A description of the various issuers of such obligations and the obligations issued by them and outstanding as of the date of this Official Statement is set forth below.

Minnesota Housing Finance Agency (“MHFA”). The MHFA was established in 1971 and is governed by Chapter 462A of the Minnesota Statutes. Its enabling legislation authorizes the MHFA to issue bonds and notes for any of its authorized purposes but the aggregate principal amount outstanding at any time (excluding the principal amount of any refunded bonds or notes) is limited to \$5.0 billion. The proceeds of MHFA bonds and notes may be used to fund an assortment of programs designed to provide housing for low and moderate income residents of the State of Minnesota, which includes the making and purchase of loans for the acquisition, construction and rehabilitation of single and multi-family housing.

The MHFA’s notes and bonds may be general or limited obligations of the MHFA but are not a debt or liability of the State. Under Chapter 462A, the MHFA must annually determine and certify to the Governor, and the Governor must include in the State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. In the opinion of bond counsel and general counsel to the MHFA, the Legislature is legally authorized, but is not legally obligated, to appropriate the amount included in the Governor’s proposed budget for the debt service reserve funds. The MHFA has never needed to certify a deficiency to the Governor.

MINNESOTA HOUSING FINANCE AGENCY Debt Outstanding as of the date of issue of the Bonds (\$’s in Thousands)

| | Number of Series | Final Maturity | Original Principal Amount | Outstanding Principal Amount |
|----------------------------------|------------------|----------------|---------------------------|------------------------------|
| Rental Housing..... | 8 | 2049 | \$ 48,895 | \$ 48,255 |
| Residential Housing Finance..... | 64 | 2052 | 3,739,010 | 2,227,230 |
| Multifamily Housing..... | <u>1</u> | 2051 | <u>15,000</u> | <u>12,700</u> |
| | <u>73</u> | | <u>\$3,802,905</u> | <u>\$2,288,185</u> |

The MHFA has also issued and there were outstanding six series of its conduit multifamily revenue bonds in the approximate aggregate principal amount of \$77,039,466 as of June 30, 2022, fifty-eight series of its Homeownership Finance Bonds in the approximate aggregate principal amount of \$1,047,102,460 as of September 19, 2022, and three series of its Home Ownership Mortgage-backed Exempt Securities in the approximate aggregate principal amount of \$5,547,071 as of August 31, 2022. The MHFA has also issued an Index Bank Note, in a cumulative aggregate principal amount not to exceed \$1,700,000,000 and a maximum principal amount outstanding of not to exceed \$150,000,000. The Index Bank Note had an outstanding balance of \$115,040,997 as of September 19, 2022. These bonds and other obligations (as well as the nonprofit housing bonds and housing infrastructure bonds described under “State Continuing Appropriations – Minnesota Housing Finance Agency”) are subject to the MHFA’s \$5 billion debt limit, and the Homeownership Finance Bonds and the Index Bank Note are also general obligations of the MHFA, but none of these bonds are secured by a debt service reserve fund subject to replenishment from Legislative appropriation as described above.

University of Minnesota. Regents of the University of Minnesota (the “University”) was established by Territorial Laws 1851, Chapter 3, adopted by the legislative assembly of the Territory of Minnesota. Pursuant to authorization by Congress on February 26, 1857, the voters of the State approved and adopted a State constitution on October 13, 1857. The State was admitted to the union by act of Congress passed on May 11, 1858.

The State Constitution confirmed and fixed the existence of the University as a separate institution of the State, having all rights, immunities, franchises and endowments previously granted or confirmed, and all lands and donations thereafter given to it. The University is governed by a board of twelve regents who are elected by the Legislature and is dependent upon appropriations by the Legislature to pay much of its instructional costs. The regents are a body corporate with the right to sue and be sued and to make contracts.

Pursuant to this authority the University has sold and issued bonds, in addition to the special purpose revenue bonds previously mentioned, to finance the construction of buildings and structures, remodeling projects, and purchases of land and buildings needed by the University. The par amount of such bonds outstanding as of the date of this Official Statement is approximately \$1,631,876,000. The bonds are payable solely from and secured by revenues to be derived from specified facilities and the general funds of the University, and by the full faith and credit of the University. See “CONTINGENT LIABILITIES - State Continuing Appropriations” in this APPENDIX C for additional information concerning other debt issued by the University of Minnesota.

Minnesota Office of Higher Education (“MOHE”). The MOHE was established and is organized and existing under Minnesota Statutes, Sections 136A.01 to 136A.236 and 136A.61 to 136A.88 (the “MOHE Act”). The 2005 Legislature named MOHE as successor for all of the bonds of the Minnesota Higher Education Services Office and the Minnesota Higher Education Coordinating Board. The law authorizes the MOHE to issue revenue bonds and notes to finance loans for students attending eligible post-secondary educational institutions. The amount of such bonds outstanding at any one time, not including refunded bonds or otherwise defeased or discharged bonds, may not exceed \$850,000,000. As amended in 2009 and 2011, Section 136A.1787 of the MOHE Act provides that MOHE must annually determine and certify to the Governor, and the Governor shall include in the State budget submitted to the Legislature, the amount, if any, needed to restore the debt service reserve fund for each issue of bonds so secured to its debt service reserve requirement and any anticipated deficiency in the debt service reserve fund in the following fiscal year. If MOHE determines that there is an anticipated deficiency in the debt service reserve fund in the current fiscal year, the Governor shall include and submit the amounts certified in a Governor’s supplemental budget if the regular budget for that year has previously been enacted. The Legislature is not legally obligated to appropriate the amount included in the Governor’s proposed budget for the debt service reserve funds. As of the date of this Official Statement, MOHE has \$436,415,000 of bonds outstanding payable from the Student Educational Loan Fund, which are secured by a debt service reserve fund subject to replenishment from legislative appropriation as described above. MOHE has never certified a deficiency to the Governor. Bonds issued by MOHE are limited obligations of MOHE and are not a debt or liability of the State, but are payable solely from loan repayments, external forms of credit enhancement, loan and investment earnings, other money of the MOHE (including debt service reserve fund amounts), and, if necessary, from proceeds of additional MOHE obligations.

Board of Trustees of the Minnesota State Colleges and Universities (“Minnesota State”). Minnesota State was established and is governed by Minnesota Statutes, Chapter 136F, which authorizes Minnesota State to establish its Revenue Fund and to issue its revenue bonds as secured by the Revenue Fund to finance the construction and improvement of dormitory, residence hall, student union, food service and other revenue producing buildings and related facilities used for the primary benefit of students of the State universities and colleges within the Minnesota State Colleges and Universities System. As of the date of this Official Statement, Minnesota State has \$150,940,000 tax exempt bonds and \$34,765,000 taxable bonds outstanding that are payable solely from and secured by an irrevocable pledge of revenues to be derived from the operation of the buildings financed from the Revenue Fund and from fees imposed upon students, student facilities or other sources all of which are received in the Revenue Fund. In addition to bonds, the Revenue Fund issues guaranties of debt (other than revenue bonds) incurred to finance Revenue Fund facilities. Two guaranties have been issued to date with outstanding balances of \$1,850,245 and the other for \$1,020,000. The guaranties are on a parity to right of payment with the revenue bonds.

Minnesota Higher Education Facilities Authority (“MHEFA”). MHEFA was established by Minnesota Statutes, Section 136A.25 to 136A.42, passed in 1971. The law, as amended, authorizes MHEFA to issue revenue bonds to finance the acquisition, construction, improvement and remodeling of nonprofit higher educational institution buildings and structures to be used solely for or to facilitate nonsectarian educational purposes, and to refinance facilities of this type. The amount of such bonds outstanding at any time may not exceed \$1,300,000,000. As of the date of this Official Statement, MHEFA has \$1,091,679,593 principal amount of bonds outstanding, primarily for the benefit of private colleges in the State. The bonds are not the general obligation or indebtedness of

either MHEFA or the State and the loan repayment obligation and security for each bond issue is the responsibility of the nonprofit higher educational institution for which the bonds were issued.

Minnesota State Armory Building Commission (“MSABC”). MSABC was established and is governed by Minnesota Statutes, Chapter 193, which authorizes the MSABC to issue its bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. The total principal amount of such bonds outstanding at any time may not exceed \$15,000,000. As of the date of this Official Statement, MSABC has \$5,570,000 principal amount of bonds outstanding. MSABC is required to lease each armory to the State for use by National Guard Forces, upon lease rentals specified by statute. The bonds are payable from ad valorem taxes levied by the county or municipality where the armory is located, State appropriations to pay lease rentals, and rentals or use charges derived from persons or groups other than the State using the armory where such use will not interfere with the State’s use.

Minnesota Rural Finance Authority (“RFA”). In 1986 the Legislature created the Minnesota Rural Finance Authority and authorized it to issue revenue bonds to finance RFA programs, and to establish a program of restructuring farm real estate loans. The 1987 Legislature broadened the RFA’s authority by establishing a beginning farmer loan program. The 1988 Legislature further broadened the RFA’s authority to include a seller sponsored loan program of purchasing participations in seller sponsored loans to beginning and re-entry farmers. The 1992 Legislature authorized the RFA to establish an expanded agricultural loan program. The 1994 Legislature authorized the RFA to establish a livestock expansion loan program. As of the date of this Official Statement, the RFA has no revenue bonds outstanding for these programs.

The 1991 Legislature also authorized the RFA to establish an aggie bond beginning farmer program and an agricultural business enterprise loan program and authorized the RFA to issue revenue bonds for these programs. As of the date of this Official Statement, the RFA has issued \$42,755,000 of revenue bonds for these programs.

Minnesota Public Facilities Authority (“MPFA”). The MPFA was established in 1987 and is governed by Minnesota Statutes, Chapter 446A which authorizes it to make loans to local government units. As of the date of this Official Statement, the MPFA has \$430,900,000 State Revolving Fund Revenue Bonds outstanding. The MPFA’s bonds are not a debt or liability of the State. The principal amount of MPFA bonds issued and outstanding at any time may not exceed \$2,000,000,000, excluding bonds issued under Minnesota Statutes, Section 446A.087.

Minnesota Agricultural and Economic Development Board (“MAEDB”). The MAEDB was established by Minnesota Statutes, Chapter 41A, to provide for agricultural and economic development in the State and is authorized to issue revenue bonds for these purposes. The revenue bonds issued by the MAEDB are not general obligations of the State. As of the date of this Official Statement, MAEDB has called all pooled revenue bonds outstanding, therefore there are no bonds outstanding that are paid for from revenues received from all of the borrowers under all of the pooled bonds and are additionally secured by a pledge of funds maintained in a reserve account created by the MAEDB for such pooled bonds. In addition, the MAEDB has \$143,516,158 of revenue bonds outstanding that were issued for the benefit of various entities and which are paid for solely from revenues received from the borrower under each specific bond issue.

Minnesota Department of Management and Budget (“MMB”). The 1999 Minnesota Legislature authorized, in Minnesota Statutes, Section 356.89, the issuance of up to \$38,000,000 of State revenue bonds to finance the acquisition, design, construction and equipping of a building and related facilities to be jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The Commissioner of MMB sold \$29,000,000 of the revenue bonds in June 2000. The balance of the original bond issue, \$22,900,000, was refunded in a current refunding bond issue in August 2012. As of the date of this Official Statement; there are \$4,760,000 of Minnesota State Retirement System bonds outstanding.

Minnesota Department of Transportation (“MnDOT”). The 2020 Minnesota Legislature authorized, in Minnesota Statutes, Section 174.525 (new statute created in MN Laws of 2020, Chapter 69), MnDOT to pursue a loan through the federal Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) for a specific project on Trunk Highway 14 in Nicollet County. If MnDOT applies for and receives a loan, the debt obligations will be repaid from oversize and overweight transportation permit fee revenues, which the law dedicates to a segregated account in the special revenue fund. As of the date of this Official Statement, MnDOT is working through the application process with the federal government, and if approved anticipates receiving an estimated \$48,207,963 TIFIA loan in State Fiscal Year 2023.

APPENDIX D

SCHEDULE OF BONDS BEING REFUNDED

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SCHEDULE OF BONDS BEING REFUNDED

State General Fund Appropriation Refunding Bonds:

Proceeds of the Series 2022A Bonds will be used to refund the following bonds.

State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B dated November 21, 2012, maturing in the years and amounts and bearing interest at the annual rates set forth below. Bonds maturing on or after March 1, 2022, will be called for redemption and prepayment on October 20, 2022, at par plus accrued interest.

| Maturing | Principal Amount | Interest Rate | CUSIP* |
|--------------|----------------------|---------------|-----------|
| 3/1/2023 | \$37,330,000 | 5.00% | 604146AL4 |
| 3/1/2024 | 39,345,000 | 5.00% | 604146AM2 |
| 3/1/2025 | 41,615,000 | 5.00% | 604146AN0 |
| 3/1/2026 | 43,980,000 | 4.00% | 604146AP5 |
| 3/1/2027 | 46,960,000 | 5.00% | 604146AQ3 |
| 3/1/2028 | 49,795,000 | 5.00% | 604146AR1 |
| 3/1/2029 | 52,810,000 | 5.00% | 604146AS9 |
| 3/1/2030 | 45,220,000 | 3.00% | 604146AT7 |
| Total | \$357,055,000 | | |

* The State is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the State as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

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APPENDIX E

**SELECTED ECONOMIC AND DEMOGRAPHIC
INFORMATION**

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SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

**RESIDENT POPULATION
(Thousands of Persons)**

| Year | U.S. | Minnesota | Minnesota Share of U.S. | % Change U.S. | % Change Minnesota |
|--|-------------|------------------|------------------------------------|--------------------------|-------------------------------|
| Decennial Census 2020 | | | | | |
| 2010 | 308,746 | 5,304 | 1.75% | - | - |
| 2020 | 331,449 | 5,706 | 1.72 | 7.4% | 7.6% |
| Intercensal Population Estimates Vintage 2020 | | | | | |
| 2011 | 311,583 | 5,347 | 1.72 | 0.7% | 0.7% |
| 2012 | 313,878 | 5,378 | 1.71 | 0.7% | 0.6% |
| 2013 | 316,060 | 5,415 | 1.71 | 0.7% | 0.7% |
| 2014 | 318,386 | 5,453 | 1.71 | 0.7% | 0.7% |
| 2015 | 320,739 | 5,484 | 1.71 | 0.7% | 0.6% |
| 2016 | 323,072 | 5,525 | 1.71 | 0.7% | 0.8% |
| 2017 | 325,122 | 5,569 | 1.71 | 0.6% | 0.8% |
| 2018 | 326,838 | 5,609 | 1.72 | 0.5% | 0.7% |
| 2019 | 328,330 | 5,640 | 1.72 | 0.5% | 0.6% |
| 2020 | 329,484 | 5,657 | 1.72 | 0.4% | 0.3% |
| Intercensal Population Estimates Vintage 2021 | | | | | |
| 2020 | 331,501 | 5,707 | 1.72 | | |
| 2021 | 331,894 | 5,707 | 1.72 | 0.1% | 0.0% |

*Due to challenges posed by the COVID-19 pandemic, the Population estimates Program could not use the 2020 decennial census as the population estimates base. Instead, we include both the 2020 Vintage Population Estimates and the 2021 Vintage Population Estimates. The 2020 Decennial Census revealed that the 2020 Vintage estimates are too low for Minnesota by 49,152 people. When updated intercensal data becomes available, that growth will be spread over the decade from 2010-2020.

Source: U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/data/tables/2020/dec/2020-apportionment-data.html, www.census.gov/data/tables/time-series/demo/popest/intercensal-2000-2010-state
Data extracted by MMB staff in June 2022.

NON-FARM EMPLOYMENT-MIX OF MINNESOTA AND UNITED STATES FOR 2021
(Thousands of Jobs)

| Industry | Minnesota | % of Total | U.S. | % of Total |
|--|------------------|-----------------------|----------------|-----------------------|
| Total Private | 2,438.8 | 85.8 | 124,354 | 85.1 |
| Goods-Producing | 449.3 | 15.8 | 20,461 | 14.0 |
| Mining and Logging | 6.5 | 0.2 | 629 | 0.4 |
| Construction | 129.9 | 4.6 | 7,447 | 5.1 |
| Manufacturing Durables | 200.2 | 7.0 | 7,695 | 5.3 |
| Manufacturing Non-Durables | 112.7 | 4.0 | 4,690 | 3.2 |
| Private Service Providing | 1,989.6 | 70.0 | 103,893 | 71.1 |
| Wholesale Trade | 125.3 | 4.4 | 5,701 | 3.9 |
| Retail Trade | 281.5 | 9.9 | 15,330 | 10.5 |
| Transportation, Warehousing, Utilities | 105.1 | 3.7 | 6,362 | 4.4 |
| Information | 42.3 | 1.5 | 2,737 | 1.9 |
| Financial Activities | 190.7 | 6.7 | 8,837 | 6.0 |
| Professional and Business Services | 372.3 | 13.1 | 21,008 | 14.4 |
| Education and Health Services | 540.7 | 19.0 | 23,553 | 16.1 |
| Leisure and Hospitality | 226.7 | 8.0 | 14,705 | 10.1 |
| Other Services | 105.1 | 3.7 | 5,661 | 3.9 |
| Government | 403.1 | 14.2 | 21,769 | 14.9 |
| Total (Non-Farm) | 2,841.9 | 100.0 | 146,122 | 100.0 |

Note: Columns may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.
 Minnesota Department of Employment and Economic Development, <http://mn.gov/deed/data/>.
 Data extracted by MMB staff June 2022.

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**EMPLOYMENT-MIX IN DURABLE GOODS INDUSTRIES OF
UNITED STATES AND MINNESOTA FOR 2021
(Thousands of Jobs)**

| Industry | Minnesota | % of Total | U.S. | % of Total |
|--|------------------|-------------------|--------------|-------------------|
| Wood Products | 12.0 | 6.0 | 407 | 5.3 |
| Fabricated Metal Products | 43.5 | 21.7 | 1,410 | 18.3 |
| Machinery | 33.6 | 16.8 | 1,072 | 13.9 |
| Computers and Electronic Products | 42.4 | 21.2 | 1,086 | 14.1 |
| Transportation Equipment | 11.2 | 5.6 | 1,607 | 20.9 |
| Medical Equipment and Supplies | 17.4 | 8.7 | 327 | 4.2 |
| Other Durables | 40.1 | 20.0 | 1,786 | 23.2 |
| Total Durable Goods Manufacturing | 200.2 | 100.0 | 7,695 | 100.0 |

Note: Columns may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.

Minnesota Department of Employment and Economic Development, <http://mn.gov/deed/data/>.

Data extracted by MMB staff June 2022.

**EMPLOYMENT-MIX IN NON-DURABLE GOODS INDUSTRIES OF
UNITED STATES AND MINNESOTA FOR 2021
(Thousands of Jobs)**

| Industry | Minnesota | % of Total | U.S. | % of Total |
|--------------------------------|------------------|-------------------|--------------|-------------------|
| Food Manufacturing | 46.1 | 40.9 | 1,643 | 35.0 |
| Other Non-Durables | 66.6 | 59.1 | 3,047 | 65.0 |
| Total Non-Durable Goods | 112.7 | 100.0 | 4,690 | 100.0 |

Note: Columns may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.

Minnesota Department of Employment and Economic Development, <http://mn.gov/deed/data/>.

Data extracted by MMB staff June 2022.

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**NON-FARM EMPLOYMENT-MIX OF UNITED STATES
AND MINNESOTA: 2000, 2010 AND 2020
(Thousands of Jobs)**

| Category | Minnesota | | | | | United States | | | | |
|--|----------------|----------------|----------------|--------------|------------|----------------|----------------|----------------|--------------|------------|
| | 2000 | 2010 | 2020 | % Change | | 2000 | 2010 | 2020 | % Change | |
| | | | | 00-10 | 10-20 | | | | 00-10 | 10-20 |
| Total Private | 2,275.5 | 2,221.3 | 2,378.2 | (2.4) | 7.1 | 111,235 | 107,855 | 120,276 | (3.0) | 11.5 |
| Goods-Producing | 523.7 | 386.3 | 439.4 | (26.2) | 13.7 | 24,649 | 17,751 | 20,068 | (28.0) | 13.1 |
| Mining and Logging | 8.1 | 6.0 | 6.2 | (26.3) | 3.8 | 599 | 705 | 619 | 17.7 | (12.2) |
| Construction | 118.9 | 87.6 | 124.0 | (26.3) | 41.5 | 599 | 705 | 7,269 | (18.7) | 31.7 |
| Manufacturing Durables | 255.6 | 183.4 | 198.8 | (28.2) | 8.4 | 10,877 | 7,064 | 7,580 | (35.1) | 7.3 |
| Manufacturing Non-Durables | 141.1 | 109.3 | 110.5 | (22.5) | 1.0 | 6,386 | 4,464 | 4,600 | (30.1) | 3.0 |
| Private Service Providing | 1,751.8 | 1,835.0 | 1,938.8 | 4.8 | 5.7 | 86,585 | 90,104 | 100,209 | 4.1 | 11.2 |
| Wholesale Trade | 126.6 | 119.1 | 124.9 | (5.9) | 4.9 | 5,933 | 5,387 | 5,640 | (9.2) | 4.7 |
| Retail Trade | 307.2 | 277.1 | 275.6 | (9.8) | (0.6) | 15,280 | 14,446 | 14,853 | (5.5) | 2.8 |
| Transportation, Warehousing, Utilities | 103.4 | 89.8 | 103.1 | (13.2) | 14.8 | 4,410 | 4,179 | 5,555 | (5.2) | 32.9 |
| Information | 69.3 | 53.2 | 43.1 | (23.2) | (18.9) | 3,630 | 2,707 | 2,694 | (25.4) | (0.5) |
| Financial Activities | 160.8 | 163.2 | 192.3 | 1.4 | 17.9 | 7,783 | 7,695 | 8,724 | (1.1) | 13.4 |
| Professional and Business Services | 323.7 | 325.5 | 361.3 | 0.6 | 11.0 | 16,666 | 16,783 | 20,246 | 0.7 | 20.6 |
| Education and Health Services | 324.5 | 457.8 | 534.1 | 41.1 | 16.7 | 15,252 | 19,975 | 23,235 | 31.0 | 16.3 |
| Leisure and Hospitality | 221.7 | 235.2 | 204.6 | 6.1 | (13.0) | 11,862 | 13,049 | 13,327 | 10.0 | 2.1 |
| Other Services | 114.7 | 114.1 | 99.7 | (0.5) | (12.6) | 5,331 | 5,331 | 5,394 | 3.2 | 1.2 |
| Government | 407.6 | 416.5 | 405.9 | 2.2 | (2.6) | 20,790 | 22,490 | 21,909 | 8.2 | (2.6) |
| Total (Non-Farm) | 2,683.1 | 2,637.9 | 2,784.1 | (1.7) | 5.5 | 132,024 | 130,345 | 142,185 | (1.3) | 9.1 |

Note: Columns may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.

Minnesota Department of Employment and Economic Development, <http://mn.gov/deed/data/>.

Data extracted by MMB staff June 2022.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

| Year | Minnesota | U.S. | Minnesota as % of U.S. |
|-------------|------------------|-------------|-----------------------------------|
| 2012 | \$47,726 | \$44,548 | 107.1 |
| 2013 | \$47,838 | \$44,798 | 106.8 |
| 2014 | \$49,967 | \$46,887 | 106.6 |
| 2015 | \$51,985 | \$48,725 | 106.7 |
| 2016 | \$52,596 | \$49,613 | 106.0 |
| 2017 | \$54,317 | \$51,573 | 105.3 |
| 2018 | \$56,568 | \$53,817 | 105.1 |
| 2019 | \$57,946 | \$55,724 | 104.0 |
| 2020 | \$61,464 | \$59,147 | 103.9 |
| 2021 | \$65,486 | \$63,444 | 103.2 |

Note: Per capita personal income is total personal income divided by total midyear population estimates of the Census Bureau.

Note: Current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, <https://www.bea.gov/regional/index.htm>.

U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.

Data extracted by MMB staff June 2022.

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**PERSONAL INCOME GROWTH AND RESIDENT POPULATION IN TWELVE STATE NORTH CENTRAL REGION
2000-2010 AND 2010-2020**

| State | 2000 Personal Income (Millions) | 2010 Personal Income (Millions) | 2000-2010 Annual Compound Rate of Increase (%) | Regional Growth Rank 2000-2010 | 2020 Personal Income (Millions) | 2010-2020 Annual Compound Rate of Increase (%) | Regional Growth Rank 2010-2020 | 2010 Census Population (Thousands) | 2010 Per Capita Personal Income (\$) | 2010 Regional Rank | 2020 Census Population (Thousands) | 2020 Per Capita Personal Income (\$) | 2020 Regional Rank |
|----------------------|--|--|---|---|--|---|---|---|---|-----------------------------------|---|---|-----------------------------------|
| Illinois | \$412,966 | \$543,084 | 2.8 | 10 | \$792,136 | 3.8 | 8 | 12,846 | \$42,278 | 3 | 12,785 | \$61,957 | 1 |
| Indiana | \$171,502 | \$231,707 | 3.1 | 9 | \$350,760 | 4.2 | 4 | 6,491 | \$35,695 | 12 | 6,786 | \$51,691 | 11 |
| Iowa | \$80,229 | \$116,906 | 3.8 | 5 | \$169,182 | 3.8 | 10 | 3,051 | \$38,312 | 8 | 3,189 | \$53,057 | 9 |
| Kansas | \$76,105 | \$114,240 | 4.1 | 4 | \$163,462 | 3.6 | 11 | 2,859 | \$39,960 | 6 | 2,936 | \$55,677 | 6 |
| Michigan | \$302,001 | \$353,316 | 1.6 | 12 | \$530,809 | 4.2 | 5 | 9,880 | \$35,760 | 11 | 10,068 | \$52,724 | 10 |
| Minnesota | \$160,089 | \$226,957 | 3.6 | 7 | \$350,785 | 4.5 | 3 | 5,312 | \$42,724 | 2 | 5,707 | \$61,464 | 2 |
| Missouri | \$156,676 | \$222,564 | 3.6 | 6 | \$318,019 | 3.6 | 12 | 5,996 | \$37,118 | 9 | 6,154 | \$51,673 | 12 |
| Nebraska | \$49,768 | \$75,490 | 4.3 | 3 | \$111,545 | 4.0 | 6 | 1,830 | \$41,248 | 5 | 1,961 | \$56,868 | 5 |
| North Dakota | \$16,623 | \$29,881 | 6.0 | 1 | \$47,089 | 4.7 | 1 | 675 | \$44,264 | 1 | 779 | \$60,451 | 3 |
| Ohio | \$324,978 | \$425,362 | 2.7 | 11 | \$627,231 | 4.0 | 7 | 11,542 | \$36,854 | 10 | 11,791 | \$53,198 | 8 |
| South Dakota | \$20,276 | \$33,804 | 5.2 | 2 | \$52,921 | 4.6 | 2 | 816 | \$41,423 | 4 | 887 | \$59,656 | 4 |
| Wisconsin | \$158,832 | \$222,983 | 3.5 | 8 | \$324,252 | 3.8 | 9 | 5,692 | \$39,175 | 7 | 5,892 | \$55,030 | 7 |
| Region | \$1,930,042 | \$2,596,294 | 3.0 | | \$3,838,190 | 4.0 | | 66,991 | \$38,756 | | 68,935 | \$55,678 | |
| United States | \$8,654,561 | \$12,586,509 | 3.8 | | \$19,607,447 | 4.5 | | 309,378 | \$40,683 | | 331,501 | \$59,147 | |

Note: Per capita personal income is total personal income divided by Census population.

Note: Current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/index.htm.

U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.

Data extracted by MMB staff June 2022.

PERSONAL INCOME GROWTH IN TWELVE STATE NORTH CENTRAL REGION: 2020-2021
(\$'s in Millions)

| Growth Rank | State | 2020 Personal Income | 2021 Personal Income | Percent Growth |
|--------------------|----------------------|-----------------------------|-----------------------------|-----------------------|
| 1 | South Dakota | \$52,921 | \$57,949 | 9.5 |
| 2 | Nebraska | \$111,545 | \$121,935 | 9.3 |
| 3 | Indiana | \$350,760 | \$382,178 | 9.0 |
| 4 | North Dakota | \$47,089 | \$50,793 | 7.9 |
| 5 | Iowa | \$169,182 | \$181,919 | 7.5 |
| 6 | Illinois | \$792,136 | \$850,197 | 7.3 |
| 7 | Missouri | \$318,019 | \$340,232 | 7.0 |
| 8 | Minnesota | \$350,785 | \$373,754 | 6.5 |
| 9 | Kansas | \$163,462 | \$174,090 | 6.5 |
| 10 | Wisconsin | \$324,252 | \$345,287 | 6.5 |
| 11 | Ohio | \$627,231 | \$665,374 | 6.1 |
| 12 | Michigan | \$530,809 | \$558,330 | 5.2 |
| | Region | \$3,838,190 | \$4,102,038 | 6.9 |
| | United States | \$19,607,447 | \$21,056,622 | 7.4 |

Note: Columns may not add due to rounding

Note: Current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/regional/index.htm
 Data extracted by MMB staff June 2022.

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION: 2000-2010 AND 2010-2020
(Thousands of Jobs)

| State | 2000 Non-Farm Employment | 2010 Non-Farm Employment | 2000-2010 Percent Increase (Decrease) | Regional Growth Rank 2000-2010 | 2020 Non-Farm Employment | 2010-2020 Percent Increase (Decrease) | Regional Growth Rank 2010-2020 |
|---------------|--------------------------------|--------------------------------|--|---|--------------------------------|--|---|
| Illinois | 6,042 | 5,610 | (7.2) | 10 | 5,699 | 1.6 | 12 |
| Indiana | 3,005 | 2,800 | (6.8) | 9 | 2,993 | 6.9 | 2 |
| Iowa | 1,479 | 1,469 | (0.6) | 4 | 1,509 | 2.7 | 10 |
| Kansas | 1,347 | 1,331 | (1.2) | 5 | 1,359 | 2.1 | 11 |
| Michigan | 4,678 | 3,867 | (17.3) | 12 | 4,039 | 4.5 | 7 |
| Minnesota | 2,683 | 2,638 | (1.7) | 6 | 2,784 | 5.5 | 4 |
| Missouri | 2,754 | 2,669 | (3.1) | 7 | 2,777 | 4.0 | 8 |
| Nebraska | 913 | 945 | 3.5 | 3 | 989 | 4.7 | 5 |
| North Dakota | 328 | 377 | 14.8 | 1 | 412 | 9.5 | 1 |
| Ohio | 5,625 | 5,036 | (10.5) | 11 | 5,263 | 4.5 | 6 |
| South Dakota | 378 | 403 | 6.6 | 2 | 426 | 5.9 | 3 |
| Wisconsin | 2,832 | 2,725 | (3.8) | 8 | 2,823 | 3.6 | 9 |
| Region | 32,063 | 29,869 | (6.8) | | 31,073 | 4.0 | |
| U.S. | 132,011 | 130,345 | (1.3) | | 142,186 | 9.1 | |

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.
Data extracted by MMB staff June 2022.

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**NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION:
2019-2020 AND 2020-2021
(Thousands of Jobs)**

| State | 2019 Non-Farm Employment | 2020 Non-Farm Employment | 2019-2020 Percent Increase | Regional Growth Rank 2019-2020 | 2021 Non-Farm Employment | 2021-2020 Percent Increase | Regional Growth Rank 2020-2019 |
|---------------|---|---|---|---|---|---|---|
| Illinois | 6,125 | 5,699 | (7.0) | 11 | 5,813 | 2.0 | 3 |
| Indiana | 3,160 | 2,993 | (5.3) | 6 | 3,089 | 3.2 | 7 |
| Iowa | 1,587 | 1,509 | (5.0) | 5 | 1,536 | 1.8 | 1 |
| Kansas | 1,424 | 1,359 | (4.6) | 3 | 1,373 | 1.1 | 9 |
| Michigan | 4,443 | 4,039 | (9.1) | 12 | 4,194 | 3.8 | 5 |
| Minnesota | 2,983 | 2,784 | (6.7) | 10 | 2,842 | 2.1 | 6 |
| Missouri | 2,915 | 2,777 | (4.7) | 4 | 2,843 | 2.4 | 11 |
| Nebraska | 1,027 | 989 | (3.7) | 2 | 1,007 | 1.8 | 2 |
| North Dakota | 441 | 412 | (6.5) | 9 | 417 | 1.0 | 12 |
| Ohio | 5,595 | 5,263 | (5.9) | 8 | 5,373 | 2.1 | 10 |
| South Dakota | 441 | 426 | (3.2) | 1 | 440 | 3.1 | 8 |
| Wisconsin | 2,988 | 2,823 | (5.5) | 7 | 2,883 | 2.1 | 4 |
| Region | 33,127 | 31,073 | -6.2 | | 31,807 | 2.4 | |
| U.S. | 148,908 | 150,905 | 1.3 | | 142,186 | (5.8) | |

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov/ces>.
Data extracted by MMB staff June 2022.

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MINNESOTA & UNITED STATES UNEMPLOYMENT RATES (Percent)

| Year | Annual Average | |
|------|----------------|--------|
| | Minnesota % | U.S. % |
| 2012 | 5.7 | 8.1 |
| 2013 | 5.0 | 7.4 |
| 2014 | 4.3 | 6.2 |
| 2015 | 3.8 | 5.3 |
| 2016 | 3.9 | 4.9 |
| 2017 | 3.5 | 4.4 |
| 2018 | 3.1 | 3.9 |
| 2019 | 3.4 | 3.7 |
| 2020 | 6.4 | 8.1 |
| 2021 | 3.4 | 5.4 |

| Month | Monthly Figures (Seasonally Adjusted) | |
|-----------|--|--------|
| | Minnesota % | U.S. % |
| 2021 | | |
| January | 4.2 | 6.3 |
| February | 3.9 | 6.2 |
| March | 3.7 | 6 |
| April | 3.5 | 6.1 |
| May | 3.4 | 5.8 |
| June | 3.4 | 5.9 |
| July | 3.3 | 5.4 |
| August | 3.3 | 5.2 |
| September | 3.2 | 4.8 |
| October | 3.1 | 4.6 |
| November | 3.1 | 4.2 |
| December | 3.0 | 3.9 |

| | | |
|----------|-----|-----|
| 2022 | | |
| January | 2.9 | 4 |
| February | 2.7 | 3.8 |
| March | 2.5 | 3.6 |
| April | 2.2 | 3.6 |
| May | 2.0 | 3.6 |
| June | 1.8 | 3.6 |
| July | 1.8 | 3.5 |

Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://data.bls.gov>
 Minnesota Department of Employment and Economic Development, <http://mn.gov/deed/data/>.
 Data extracted by MMB staff August 2022.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

(\$ in millions)

| <u>Rank</u> | | <u>Company</u> | <u>Revenues</u> | <u>Assets</u> | <u>Profits</u> | <u>Industry Category</u> | <u>Industry</u> |
|-------------|-------------|---------------------------------------|-----------------|---------------|----------------|---|-----------------|
| <u>2021</u> | <u>2020</u> | | | | | | <u>Rank</u> |
| 5 | 5 | UnitedHealth Group | \$ 287,597 | \$ 212,206 | \$ 17,285 | Health Care: Insurance and Managed Care | 1 |
| 32 | 30 | Target | \$ 106,005 | \$ 53,811 | \$ 6,946 | General Merchandisers | 3 |
| 68 | 66 | Best Buy | \$ 51,761 | \$ 17,504 | \$ 2,454 | Specialty Retailers: Other | 3 |
| 95 | 103 | Cenex Harvest States (CHS) | \$ 38,448 | \$ 17,576 | \$ 554 | Food Production | 3 |
| 102 | 96 | Minnesota Mining & Manufacturing (3M) | \$ 35,355 | \$ 47,072 | \$ 5,921 | Chemicals | 2 |
| 150 | 113 | U.S. Bancorp | \$ 23,714 | \$ 573,284 | \$ 7,963 | Commercial Banks | 8 |
| 154 | 191 | C.H. Robinson Worldwide | \$ 23,102 | \$ 7,028 | \$ 844 | Transportation and Logistics | 1 |
| 201 | 169 | General Mills | \$ 18,127 | \$ 31,842 | \$ 2,340 | Food Consumer Products | 4 |
| 232 | 219 | Land O'Lakes | \$ 15,916 | \$ 9,560 | \$ 287 | Food Consumer Products | 5 |
| 277 | 253 | Ameriprise Financial | \$ 13,443 | \$ 175,979 | \$ 2,760 | Diversified Financials | 8 |
| 278 | 272 | Xcel Energy | \$ 13,431 | \$ 57,851 | \$ 1,597 | Utilities: Gas and Electric | 11 |
| 293 | 237 | Ecolab | \$ 12,733 | \$ 21,206 | \$ 1,130 | Chemicals | 6 |
| 327 | 317 | Hormel Foods | \$ 11,386 | \$ 12,696 | \$ 909 | Food Consumer Products | 7 |
| 351 | 369 | Thrivent Financial for Lutherans | \$ 10,313 | \$ 116,525 | \$ 2,530 | Insurance: Life, Health (Mutual) | 6 |
| 419 | 407 | Polaris Industries | \$ 8,252 | \$ 5,048 | \$ 494 | Transportation Equipment | 1 |
| 464 | 421 | Securian Financial Group | \$ 7,317 | \$ 75,169 | \$ 312 | Insurance: Life, Health (Stock) | 13 |

Source: Fortune Magazine, <http://fortune.com/fortune500/>
Data extracted by MMB staff June 2022.

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APPENDIX F
SELECTED STATE FINANCIAL STATEMENTS
For the Fiscal Year
Ended June 30, 2021

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APPENDIX F
SELECTED STATE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021
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BASIC FINANCIAL STATEMENTS

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The Office of the Legislative Auditor, the State’s independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Office of the Legislative Auditor also has not performed any procedures relating to this offering document.

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Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Tim Walz, Governor

Mr. Jim Schowalter, Commissioner, Minnesota Management and Budget

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2021, which collectively comprise the state's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The State of Minnesota's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is a major proprietary fund, and the Minnesota State Lottery, which is a nonmajor proprietary fund, and which cumulatively represent 69 percent, 142 percent, and 54 percent, respectively, of the total assets, total net position, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, Office of Higher Education, Public Facilities Authority, Minnesota Sports Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, total net position, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely

presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State of Minnesota's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Minnesota's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The financial statements of the Housing Finance Agency, the National Sports Center Foundation, and the Workers' Compensation Assigned Risk Plan, which are discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Members of the Minnesota State Legislature
The Honorable Tim Walz, Governor
Mr. Jim Schowalter, Commissioner, Minnesota Management and Budget
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the State of Minnesota's basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Minnesota's basic financial statements. The Introduction, the Combining and Individual Nonmajor Fund Financial Statements and Schedules, General Obligation Debt Schedule, and the Statistical Section, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Combining and Individual Nonmajor Fund Financial Statements and Schedules and the General Obligation Debt Schedule have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introduction and Statistical Sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Members of the Minnesota State Legislature
The Honorable Tim Walz, Governor
Mr. Jim Schowalter, Commissioner, Minnesota Management and Budget
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the State of Minnesota's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Lori Leysen, CPA
Deputy Legislative Auditor

December 17, 2021



Scott Tjomslund, CPA
Audit Director

2021 Annual Comprehensive Financial Report
Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2021 and identifies changes in the financial position of the state that occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

The focus of Minnesota's financial reporting is on the state as a whole, and on the individual funds that are considered to be major. This reporting focus presents a more comprehensive view of Minnesota's financial activities and financial position and makes the comparison of Minnesota's government to other governments easier.

The financial section of this annual report has four parts:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements – Nonmajor Funds

The report also includes statistical and economic information, which generally provides a ten-year history of various indicators.

The Basic Financial Statements include Government-wide Financial Statements, Fund Financial Statements, and Notes to the Financial Statements that provide more detailed information.

Government-wide Financial Statements

The Government-wide Financial Statements provide an overall view of the state's operations in a manner similar to a private-sector business. Government-wide Financial Statements consist of the Statement of Net Position and the Statement of Activities that are prepared using the economic resources measurement focus and the accrual basis of accounting. All current year revenues and expenses are included in the statements regardless of whether the related cash has been received or paid. Revenues and expenses are reported in the statement of activities for some items that will not result in cash flows until future fiscal periods (e.g. uncollected taxes, accounts receivable, and earned but unused vacation leave). This reporting method produces a view of financial activities and position similar to that presented by most private-sector companies. The statements provide both short-term and long-term information about the state's financial position, which assists readers in assessing the state's economic condition at the end of the fiscal year.

The Government-wide Financial Statements are located immediately following this discussion and analysis.

The Statement of Net Position presents all of the state's financial resources along with capital assets and long-term obligations. The statement includes all assets, deferred outflows of resources, liabilities, and

deferred inflows of resources of the state. Net position is the difference between assets and liabilities and is one method to measure the state's financial condition.

- An increase or decrease in the state's net position from one year to the next indicates whether the financial position of the state is improving or deteriorating.
- Other indicators of the state's financial condition include the condition of its infrastructure and economic events and trends that affect future revenues and expenses.

The Statement of Activities presents the changes in net position and reports on the gross and net cost of various activities carried out by the state (governmental, business-type, and component units). These costs are paid by general taxes and other revenues generated by the state. This statement summarizes the cost of providing specific services by the government and includes all current year revenues and expenses.

The Statement of Net Position and the Statement of Activities segregate the activities of the state into three types:

Governmental Activities

The governmental activities of the state include most basic services such as environmental resources, general government, transportation, education, health and human services, and public safety. Most of the costs of these activities are financed by taxes, fees, and federal grants.

Business-type Activities

The business-type activities of the state normally are intended to recover all, or a significant portion of, their costs through user fees and charges to external users of goods and services. The operations of the Unemployment Insurance, the State Colleges and Universities, and the Lottery are examples of business-type activities.

Discretely Presented Component Units

Component units may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state's operations. Discretely presented component units are shown separately from the primary government. Component units are legally separate organizations for which the state is financially accountable, or the nature and significance of the unit's relationship with the state is such that exclusion of the unit would cause the state's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit governing body, and either a) the ability of the state to impose its will, or b) the potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government.

The state's 11 component units are reported as discretely presented component units and reported in two categories: major and nonmajor. This categorization is based on the relative size of an individual component unit's assets, liabilities, revenues, and expenses in relation to the total of all component units and the primary government.

The state's three major component units are:

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

The state's eight nonmajor component units are combined into a single column for reporting in the Fund Financial Statements. These nonmajor component units are:

- Agricultural and Economic Development Board
- Minnesota Comprehensive Health Association
- Minnesota Sports Facilities Authority
- National Sports Center Foundation
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan

State Fund and Component Unit Financial Statements

A fund is a grouping of related self-balancing accounts used to maintain control over resources that have been segregated for specific activities or objectives. The state of Minnesota, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Fund Financial Statements focus on individual parts of the state, reporting the state's operations in more detail than in the Government-wide Statements. Fund Financial Statements focus on the most significant funds within the state.

The state's funds are divided into three categories:

Governmental Funds

Governmental funds record most of the basic services provided by the state and account for essentially the same functions as reported in the governmental activities in the Government-wide Financial Statements. Unlike the Government-wide Financial Statements, the Fund Financial Statements focus on how money flows in and out of the funds during a fiscal year and spendable resources available at the end of the fiscal year.

Governmental funds are accounted for using the modified accrual basis of accounting, which recognizes revenues when they are available and measurable. Expenditures are generally recognized in the accounting period when the fund liability is incurred, if measurable. This approach is known as the flow of current financial resources measurement focus. These statements provide a detailed short-term view of the state's finances that assist in determining whether there are more or less resources available and whether these financial resources will be adequate to meet the current needs of the state. Governmental funds include the General, special revenue, capital project, Debt Service, and Permanent funds.

The focus of governmental funds is narrower than that of the Government-wide Financial Statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By comparing this financial information, readers may better understand the long-term impact of the state's short-term financing decisions.

The basic financial statements include a reconciliation of governmental funds to governmental activities. These reconciliations follow the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances.

The state maintains 22 individual state governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for the General and Federal funds, which are reported as major funds. Information from the remaining funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

The state adopts a biennial budget with annual appropriations for the majority of the activity reported in the General Fund. A budgetary comparison statement has been provided for the General Fund activity with appropriations included in the biennial budget to demonstrate compliance with this budget.

Proprietary Funds

When the state charges customers for the services it provides, whether to outside customers or to other agencies within the state, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) use accrual accounting which is the same method used by private-sector businesses. Proprietary fund financial statements provide the same type of information as the Government-wide Financial Statements, only in more detail.

Enterprise funds, a type of proprietary fund, are used to report activities that provide goods and services to outside (non-government) customers, including the general public. Internal service funds are used to accumulate and allocate costs internally for goods and services provided by one program of the state to another. Because the activities reported by internal service funds predominantly benefit governmental functions rather than business-type functions, the internal service funds have been included within governmental activities in the Government-wide Financial Statements.

The state maintains 17 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds Statement of Net Position and in the proprietary funds Statement of Revenues, Expenses, and Changes in Net Position. Information from the nine nonmajor enterprise funds and the six internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

Fiduciary funds are used to report activities when the state acts as a trustee or fiduciary to hold resources for the benefit of parties outside the state. The accrual basis of accounting is used for fiduciary funds and is similar to the accounting used for proprietary funds. The Government-wide Financial Statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and cannot be used by the state to finance its operations. The state must ensure that the assets reported in fiduciary funds are used for their intended purposes.

The state maintains 19 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which account for the transactions, assets, liabilities, and fund equity of the external investment pools), and the Custodial Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

Component units are legally separate organizations for which the state is financially accountable. The Government-wide Financial Statements present information for the discretely presented component units in a single column on the Statement of Net Position. Also, some information on the Statement of Changes in Net Position is aggregated for component units. The discretely presented component units' statements of net position and statements of changes in net position provide detail for each major discretely presented component unit and aggregate the detail for nonmajor discretely presented component units. Individual nonmajor discretely presented component unit detail can be found in the Combining and Individual Fund Financial Statements included in this report.

Notes to the Financial Statements

The notes provide additional narrative and financial information that is essential to a full understanding of the data provided in the Government-wide Financial Statements and the Fund Financial Statements. The notes to the financial statements are located immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. This section includes maintenance data regarding certain portions of the state's infrastructure, actuarial measures of pension and other postemployment benefits, and public employees insurance program development information.

Other Supplementary Information

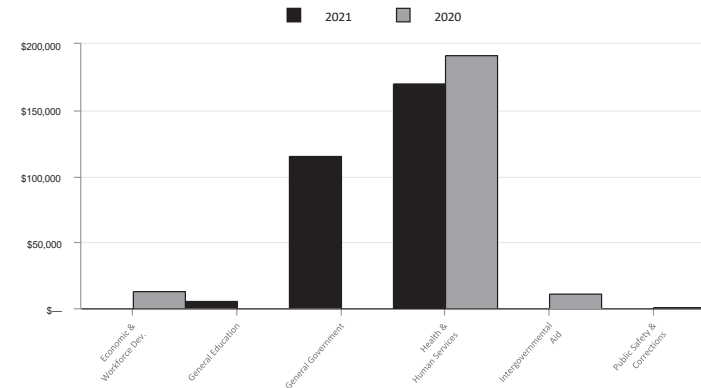
Other supplementary information includes Combining and Individual Fund Financial Statements for nonmajor governmental, proprietary, and fiduciary funds and nonmajor discretely presented component units. These funds are added together by fund type and presented in single columns in the basic financial statements.

COVID-19 Pandemic Impact on Current Year Governmental Financial Activity

The spread of COVID-19, a respiratory disease caused by a new strain of coronavirus, is having a material impact on global, national, and state economies. The President declared a national emergency and the Governor declared a Peacetime Emergency related to COVID-19 on March 13, 2020. The Peacetime Emergency was ended July 1, 2021 but the COVID-19 pandemic continues to significantly disrupt economic activity and increase public and private health emergency response costs, including within the state.

The following graph shows the majority of the functional expenditures in governmental funds related to the impacts of COVID-19. The Federal Fund expenditures are reimbursed by the federal government and are recorded as Federal Revenue in the governmental funds statement of revenues, expenditures and changes in fund balances and Operating Grants and Contributions in the governmental activities statement of activities.

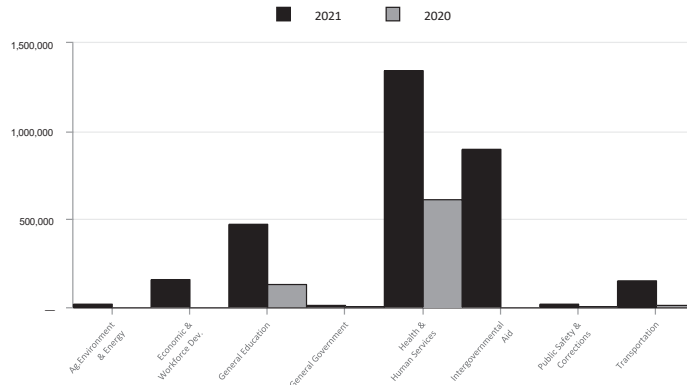
**Functional Expenditures by Fund Related to COVID-19
Governmental Funds - General Fund
Fiscal Years Ended June 30, 2021 and 2020⁽¹⁾
(In Thousands)**



⁽¹⁾ 2020 has been restated to be consistent with the 2021 presentation.

General Fund expenditures related to COVID-19 increased over the prior year. The majority of this increase is related to general government grants to counties for support to small businesses. This was offset by a decrease in economic and workforce development grants to small businesses and health and human services grants to cities and counties to respond to the pandemic as well as a reduction in costs associated with laboratories, testing, supplies, and vaccinations. In fiscal year 2020, intergovernmental aid grants were issued to tribal nations to respond to the pandemic.

**Functional Expenditures by Fund Related to COVID-19
Governmental Funds - Federal Fund
Fiscal Years Ended June 30 2021 and 2020⁽¹⁾
(In Thousands)**



⁽¹⁾ 2020 has been restated to be consistent with the 2021 presentation.

The Federal Fund expenditures related to COVID-19 increased for all functions. During the current year, the state issued approximately \$900 million in intergovernmental grants to local units of governments for the local share of the state fiscal stabilization funds and an additional \$155 million in transportation grants to airports and other non-governmental entities. The state also issued economic and workforce development grants to provide additional support for small businesses and family housing. General education grants to school districts increased significantly over the prior year to help with family support and other services for pupils. Health and human services increased significantly over the prior year for several reasons. The largest portion is related to the increase in the federal participation rate which was in effect for the entire year in 2021, but only part of the year in 2020. In addition, the case load increased during the current year as healthcare facilities opened to treat non-emergency healthcare patients. Health and human services grants to provide relief to childcare providers increased to help ensure these providers remained open. Finally, costs associated with immunizations, laboratories, testing and supplies, emergency childcare, and other services, as well as additional housing support, related to the impacts of COVID-19 also increased significantly. General education grants to school districts also increased significantly to provide pupil and family support.

For the COVID-19 impacts on business-type activities, see the Government-wide Financial Analysis section.

Government-wide Financial Analysis

Net position serves as a useful indicator of a government's financial position over time. The state's combined net position (governmental and business-type activities) totaled \$24.6 billion at the end of fiscal year 2021, compared to \$21.3 billion at the beginning of the year.

**Net Position
June 30, 2021 and 2020
(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Current Assets | \$ 27,127,009 | \$ 22,643,499 | \$ 2,615,279 | \$ 3,614,231 | \$ 29,742,288 | \$ 26,257,730 |
| Noncurrent Assets: | | | | | | |
| Capital Assets | 19,310,546 | 18,631,498 | 2,097,869 | 2,172,853 | 21,408,415 | 20,804,351 |
| Other Assets | 1,051,352 | 1,054,257 | 70,237 | 88,588 | 1,121,589 | 1,142,845 |
| Total Assets | \$ 47,488,907 | \$ 42,329,254 | \$ 4,783,385 | \$ 5,875,672 | \$ 52,272,292 | \$ 48,204,926 |
| Deferred Outflows of Resources | \$ 1,017,004 | \$ 2,571,372 | \$ 175,507 | \$ 435,379 | \$ 1,192,511 | \$ 3,006,751 |
| Current Liabilities ⁽¹⁾ | \$ 9,421,923 | \$ 8,755,185 | \$ 1,107,246 | \$ 2,072,520 | \$ 10,529,169 | \$ 10,827,705 |
| Noncurrent Liabilities | 12,115,751 | 11,955,025 | 2,129,988 | 1,056,875 | 14,245,739 | 13,011,900 |
| Total Liabilities⁽¹⁾ | \$ 21,537,674 | \$ 20,710,210 | \$ 3,237,234 | \$ 3,129,395 | \$ 24,774,908 | \$ 23,839,605 |
| Deferred Inflows of Resources | \$ 3,545,077 | \$ 5,233,770 | \$ 566,011 | \$ 830,299 | \$ 4,111,088 | \$ 6,064,069 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | \$ 15,704,737 | \$ 14,765,807 | \$ 1,671,095 | \$ 1,694,373 | \$ 17,375,832 | \$ 16,460,180 |
| Restricted | 8,015,585 | 7,187,903 | 329,437 | 761,014 | 8,345,022 | 7,948,917 |
| Unrestricted ⁽¹⁾ | (297,162) | (2,997,064) | (844,885) | (104,030) | (1,142,047) | (3,101,094) |
| Total Net Position⁽¹⁾ | \$ 23,423,160 | \$ 18,956,646 | \$ 1,155,647 | \$ 2,351,357 | \$ 24,578,807 | \$ 21,308,003 |

⁽¹⁾ 2020 has been restated to be consistent with the 2021 presentation.

The largest portion, \$17.4 billion of \$24.6 billion, of the state's net position reflects investment in capital assets such as land, buildings, equipment, and infrastructure (pavement, bridges, and other immovable assets) less any related outstanding debt used to acquire those assets. The state uses these capital assets to provide services to Minnesotans. Capital assets are not considered to be convertible to cash and cannot be used to fund the daily activities of the state or pay for the debt related to capital assets. Therefore, the resources needed to repay this debt related to capital assets must be provided from other sources.

Approximately \$8.3 billion of the state's net position represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. Additional information on the state's net position restrictions is located in Note 16 – Equity in the notes to the financial statements.

The remaining net position balance represents a deficit in unrestricted net position of \$1.1 billion. This deficit does not mean that the state lacks resources to pay its bills in the near future. Rather, this deficit primarily reflects three significant factors. First, the state, similar to other states, issues general obligation

bonds and distributes the proceeds to component units and local units of government. These proceeds are used to finance the purchase or construction of capital assets. These entities record the capital assets in their statements of net position; however, the state is responsible for the repayment of the debt. This practice allows the state to promote improved financial management by reducing bond issuance costs and obtaining more favorable financing arrangements. Second, the state reports the majority of the noncapital portion of net position for most of its governmental activities' special revenue, debt service, and permanent funds as restricted. Third, the state recognized a net pension liability for defined benefit plans to which the state contributes either on behalf of state employees or for employees of other entities. This liability is long-term in nature and is being managed by the retirement systems and the state Legislature.

The state's combined net position for governmental and business-type activities increased \$3.3 billion (15.4 percent) over the course of this fiscal year. This resulted from a \$4.5 billion (23.6 percent) increase in net position of governmental activities, and a \$1.2 billion (50.9 percent) decrease in net position of business-type activities.

**Changes in Net Position
For Fiscal Years Ended June 30, 2021 and 2020
(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|-------------------------|----------------------|--------------------------|-----------------------|--------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,687,307 | \$ 1,642,634 | \$ 2,872,605 | \$ 3,005,326 | \$ 4,559,912 | \$ 4,647,960 |
| Operating Grants and Contributions ⁽¹⁾ | 18,039,863 | 13,263,467 | 6,518,820 | 4,436,859 | 24,558,683 | 17,700,326 |
| Capital Grants | 222,208 | 238,623 | — | 14 | 222,208 | 238,637 |
| General Revenues: | | | | | | |
| Individual Income Taxes | 14,199,891 | 12,754,820 | — | — | 14,199,891 | 12,754,820 |
| Corporate Income Taxes | 2,402,120 | 1,638,366 | — | — | 2,402,120 | 1,638,366 |
| Sales Taxes | 6,736,757 | 6,408,680 | — | — | 6,736,757 | 6,408,680 |
| Property Taxes | 788,623 | 781,471 | — | — | 788,623 | 781,471 |
| Motor Vehicle Taxes | 1,836,728 | 1,622,413 | — | — | 1,836,728 | 1,622,413 |
| Fuel Taxes | 855,981 | 882,917 | — | — | 855,981 | 882,917 |
| Other Taxes | 3,315,179 | 3,019,463 | — | — | 3,315,179 | 3,019,463 |
| Tobacco Settlement | 259,124 | 150,729 | — | — | 259,124 | 150,729 |
| Investment/Interest Income | 97,485 | 127,253 | 7,923 | 53,677 | 105,408 | 180,930 |
| Other Revenues | 155,267 | 51,292 | 918 | 30 | 156,185 | 51,322 |
| Total Revenues | \$ 50,596,533 | \$ 42,582,128 | \$ 9,400,266 | \$ 7,495,906 | \$ 59,996,799 | \$ 50,078,034 |
| Expenses | | | | | | |
| Agricultural, Environmental and Energy Resources | \$ 1,363,384 | \$ 1,254,084 | \$ — | \$ — | \$ 1,363,384 | \$ 1,254,084 |
| Economic and Workforce Development | 942,801 | 787,975 | — | — | 942,801 | 787,975 |
| General Education | 11,785,920 | 10,900,070 | — | — | 11,785,920 | 10,900,070 |
| General Government | 1,461,124 | 1,443,784 | — | — | 1,461,124 | 1,443,784 |
| Health and Human Services | 21,194,790 | 18,485,278 | — | — | 21,194,790 | 18,485,278 |
| Higher Education | 1,038,674 | 1,009,104 | — | — | 1,038,674 | 1,009,104 |
| Intergovernmental Aid | 2,860,441 | 1,780,630 | — | — | 2,860,441 | 1,780,630 |
| Public Safety and Corrections | 1,359,127 | 1,191,908 | — | — | 1,359,127 | 1,191,908 |
| Transportation | 3,462,174 | 3,441,636 | — | — | 3,462,174 | 3,441,636 |
| Interest | 41,328 | 239,792 | — | — | 41,328 | 239,792 |
| State Colleges and Universities | — | — | 2,076,496 | 2,088,956 | 2,076,496 | 2,088,956 |
| Unemployment Insurance | — | — | 7,884,357 | 6,298,163 | 7,884,357 | 6,298,163 |
| Lottery | — | — | 615,118 | 513,558 | 615,118 | 513,558 |
| Other Expenses | — | — | 640,261 | 569,862 | 640,261 | 569,862 |
| Total Expenses | \$ 45,509,763 | \$ 40,534,261 | \$ 11,216,232 | \$ 9,470,539 | \$ 56,725,995 | \$ 50,004,800 |
| Excess (Deficiency) Before Transfers | \$ 5,086,770 | \$ 2,047,867 | \$ (1,815,966) | \$ (1,974,633) | \$ 3,270,804 | \$ 73,234 |
| Transfers | (620,256) | (696,757) | 620,256 | 696,757 | — | — |
| Changes in Net Position | \$ 4,466,514 | \$ 1,351,110 | \$ (1,195,710) | \$ (1,277,876) | \$ 3,270,804 | \$ 73,234 |
| Net Position, Beginning | \$ 18,956,646 | \$ 17,605,536 | \$ 2,351,357 | \$ 3,629,233 | \$ 21,308,003 | \$ 21,234,769 |
| Net Position, Ending | \$ 23,423,160 | \$ 18,956,646 | \$ 1,155,647 | \$ 2,351,357 | \$ 24,578,807 | \$ 21,308,003 |

⁽¹⁾ 2020 has been restated to be consistent with the 2021 presentation.

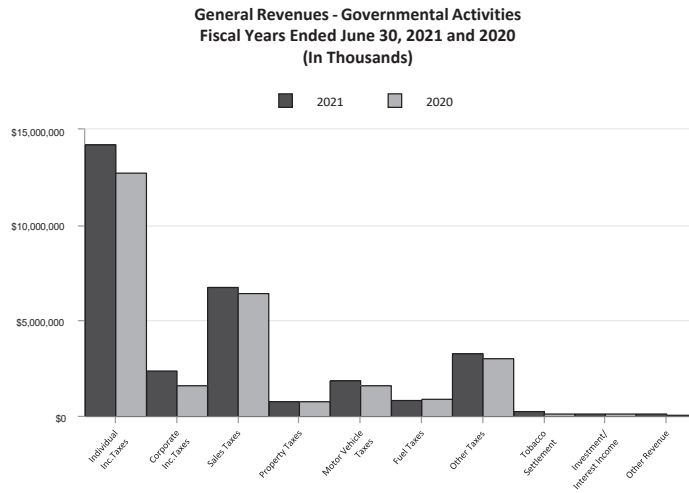
Approximately 50 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 41 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 8 percent of the total revenues. The remaining 1 percent came from other general revenues.

The state's expenses cover a range of services. The largest expenses were for general education and health and human services.

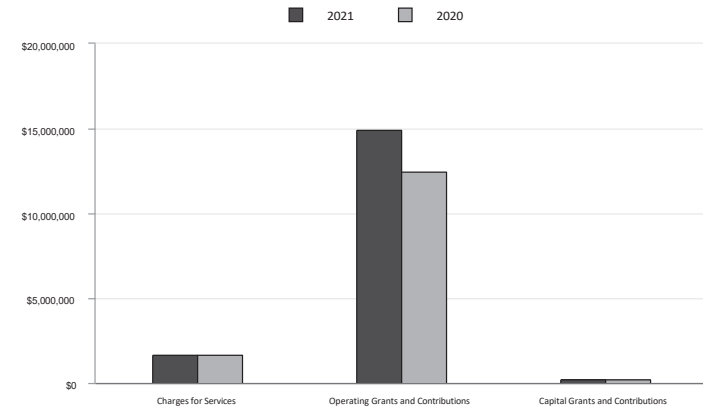
Governmental Activities

Governmental activities increased the state's net position by \$4.5 billion in the current year compared to an increase of \$1.4 billion in the prior year.

Revenues increased, \$8.0 billion (18.8 percent) over prior year. The following graphs show revenues for the current year and prior year separating general revenues from program revenues. The program revenues graph is net of the COVID-19 revenue.



Program Revenues, Net of COVID-19 - Governmental Activities
Fiscal Years Ended June 30, 2021 and 2020⁽¹⁾
(In Thousands)



⁽¹⁾ 2020 has been restated to be consistent with the 2021 presentation.

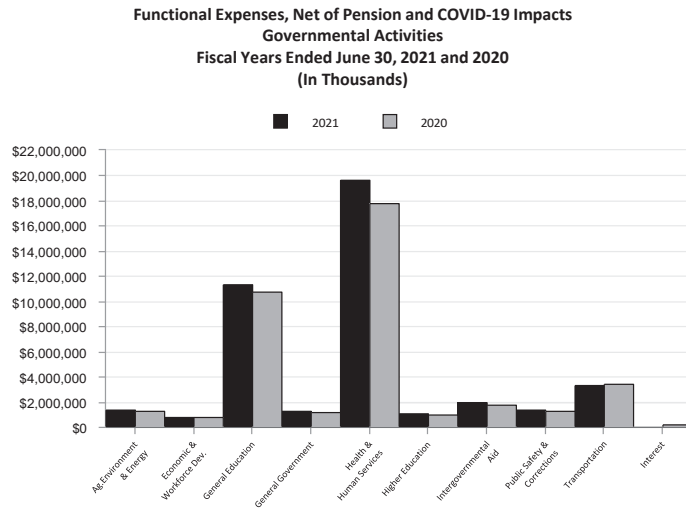
The state's largest general revenues, sales and income taxes, increased significantly during the current year even though the pandemic continues and unemployment remains high. Most of the higher wage earners continued to remain employed and taxable capital gains increased significantly over the prior year contributing to the increase in income taxes. In addition, corporate profits were significantly higher over the prior year. During this pandemic, unemployed individuals received extended benefits plus additional federal unemployment benefits above the state unemployment benefits which increased consumer's disposable cash. This contributed to increased consumer spending on home improvements and other goods including vehicles, as many individuals remained home during the pandemic. This contributed to increased sales and motor vehicle taxes during the current year. The state received a court settlement from J.J. Reynolds Tobacco Company and ITG Brands, LLC to pay the unpaid tobacco settlement. The increase in other taxes resulted from an increase in lawful gambling, mortgage, and deed transfer taxes as well as an increase in hospital surcharge taxes as a result of an increase in patients receiving healthcare services after the slowdown in the prior year due to the pandemic. The majority of the increase in other revenue related to a receipt of the excess surplus from the Workers' Compensation Assigned Risk Plan (component unit) during the current year.

The operating grants and contributions, net of the COVID-19 revenue, increased over prior year. This was primarily due to an increase in the federal government's share of medical assistance resulting from an increase in caseloads and the supplemental nutrition assistance program that allowed the state to obtain a waiver from the federal government and allow recipients to receive the maximum monthly benefit. In addition, the federal government increased grants to school districts for nutritional support for families.

There was a \$5.0 billion (12.3 percent) increase in governmental activities expenses compared to the prior year. This included an increase in expenses of \$25.8 million related to the impacts of pension reporting and an increase in expenses of \$2.4 billion related to COVID-19 offset by an increase in non-pension related

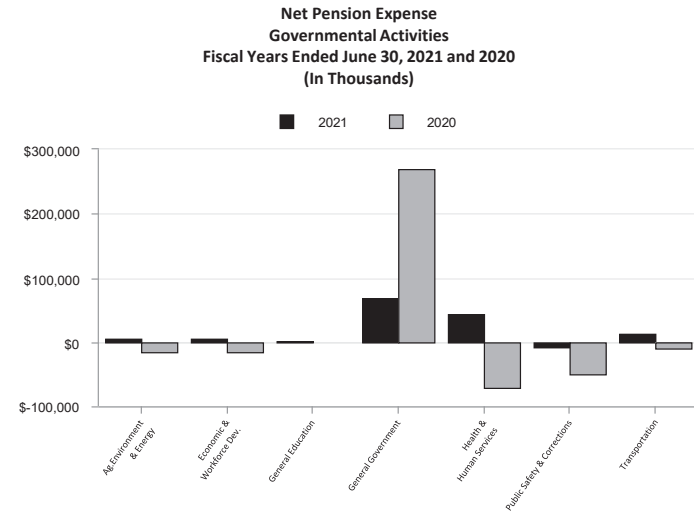
expenses of \$2.6 billion. Pension reporting impacted all functional expenses except higher education and intergovernmental aid. See the chart on the Changes in Net Pension Liability and Related Deferred Inflows and Outflows for the impact by functional expenses. COVID-19 impacted primarily health and human services and general education expenses.

The following graph shows the functional expenses for governmental activities, excluding the impacts of the changes related to pensions and COVID-19 expenses.



Several functional expenses, net of the impacts of pension and COVID-19, increased during the current fiscal year. The general education expense increase is due to an increase in grants to school districts for family nutritional support and a two percent per pupil formula increase. The formula increase was partially offset by a decrease in the number of pupils. The primary reason for the significant increase in health and human services expenses relates to the increase in medical assistance caseloads and the supplemental nutrition assistance program that allowed the state to obtain a waiver from the federal government and allow recipients to receive the maximum monthly benefit. The intergovernmental aid expense increase was the result of an increase in grants to local governments. Higher education grants to the University of Minnesota (component unit) for capital projects also increased during the current fiscal year. The public safety expenses increase was the result of the planning and response to the potential civil unrest from a high profile trial that was nationally televised and related protests. These net increases were slightly offset by a decrease in transportation expense as a result of decreases in grants to local units of governments for transportation projects and an increase in costs spent on transportation projects that were capitalized during the current year instead of expensed. This decrease in transportation expense was also partially offset by an increase in transportation grants to Metropolitan Council (component unit).

The following graph shows the changes in functional expenses for governmental activities related to the impacts of pension reporting.



Business-type Activities

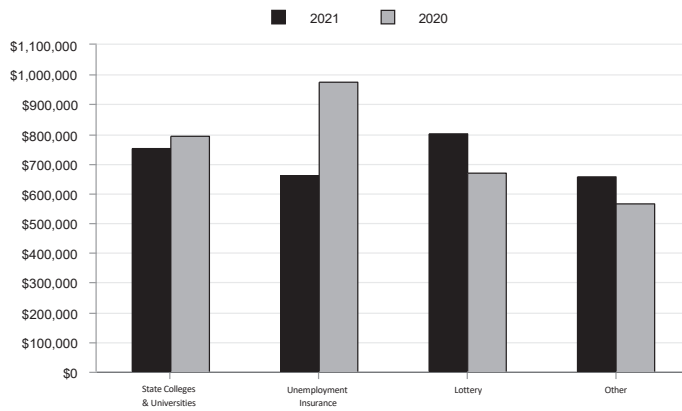
Net position for the state’s business-type activities decreased by \$1.2 billion during the current year compared to a decrease of \$1.3 billion in the prior year. The impacts of pension related reporting on business-type activities resulted in a decrease in expenses of \$6.4 million during the current year. See chart on expenses net of pension impact - business-type activities for changes in expenses net of these pension reporting impacts.

The decrease in the net position of the state’s business-type activities primarily resulted from a \$10.5 million increase in net position in the State Colleges and Universities Fund and a \$1.2 billion decrease in net position in the Unemployment Insurance Fund.

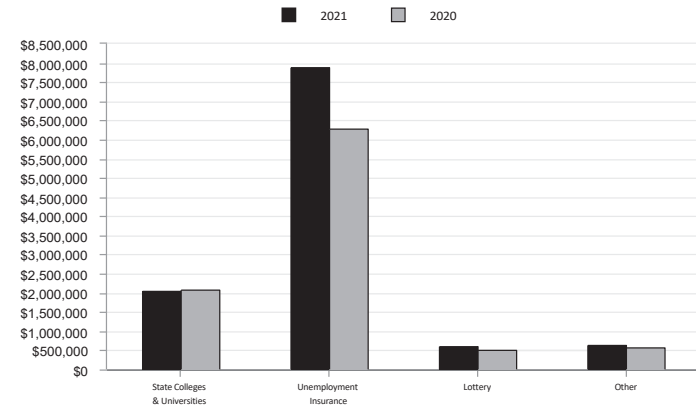
The State Colleges and Universities Fund’s net position increased \$10.5 million during the current year compared to an increase of \$25.8 million in the prior year. The federal grant revenue increase was the result of an increase in the Higher Education Emergency Relief funds, which was partially offset by a decrease in federal grants associated with PELL grants. This increase was also partially offset by a decrease in tuition and fees due to decreased enrollment. In addition, net pension expense decreased \$3.3 million. The Unemployment Insurance Fund’s net position decreased \$1.2 billion during the current year compared to an increase of \$1.3 billion in the prior year. COVID-19 has had significant impacts to the Unemployment Insurance Fund. The impact of the closure of restaurants, bars, and many other places of public accommodations and amusement businesses in March 2020 caused a momentous increase in unemployment that continued to impact the fund activity through fiscal year 2021. The federal government extended the federally paid unemployment benefit that started in March 2020 through September 2021. This caused significant increases in both unemployment benefits and grants from the federal government as

it was paid for the entire year. Employer premiums also decreased as employers only pay premiums on state paid unemployment benefits and a significant portion of the unemployment benefits were paid by the federal government as noted above. In addition, the federal government also paid for a portion of the employer premiums; thus, reducing the premiums billed to employers even further.

Charges for Services - Business-Type Activities
Fiscal Years Ended June 30, 2021 and 2020
(In Thousands)



Expenses Net of Pension Impact - Business-Type Activities
Fiscal Years Ended June 30, 2021, and 2020
(In Thousands)



Long-Term Liabilities

The state’s total long-term liabilities increased by \$1.2 billion (8.9 percent) during the current fiscal year. This increase is attributable to a Title X11 advance from the federal government to cover the Unemployment Insurance Fund (enterprise fund) deficit and an increase in Net Pension Liability of \$131.7 million. For additional information on changes in bonds, see the Debt Administration section below.

State Funds Financial Analysis

Governmental Funds

The focus of the state’s governmental funds is to provide information on near-term cash inflows and outflows during the fiscal year and balances of spendable resources as of fiscal year end. Such information is useful in assessing the state’s financial condition. The unassigned fund balance serves as a useful measure of the state’s net resources available for future spending at the end of the fiscal year.

As of the end of the current fiscal year, the state’s governmental funds reported combined ending fund balances of \$16.8 billion, an increase of \$3.9 billion over the prior year.

The General Fund is the main operating fund of the state. At the end of the current fiscal year, the fund balance of the General Fund was \$8.9 billion, an increase of \$3.3 billion during the current year.

Because the General Fund is the main operating fund of the state, many of the same variances impacting Governmental Activities impacted the General Fund. As previously noted, income taxes were significantly higher over prior year as higher wage earner’s taxable income including capital gains increased during the current year and corporate profits were significantly higher. In addition, disposable cash increased as a result of the increase in wages and the additional federal unemployment benefits resulting in increased consumer spending, which contributed to the increase in sales taxes. Tobacco settlement increased as a

result of the court settlement on past unpaid tobacco settlements. The increase in other taxes resulted from an increase in lawful gambling, mortgage, and deed transfer taxes as well as an increase in hospital surcharge taxes as a result of patients receiving healthcare services after the slowdown in the prior year due to the pandemic. The majority of the increase in other revenue related to a receipt of the excess surplus from the Workers' Compensation Assigned Risk Plan (component unit) during the current year.

The General Fund expenditures, net of expenditures related to COVID-19, increased slightly over the prior year. General education expenditures increased as a result of the two percent per pupil formula increase, which was partially offset by a decrease in the number of pupils. Human services expenditures increased due to an increase in caseloads in the state welfare program for low income families with children. Even though the caseload for medical assistance increased during the current year, this increase was shifted from the General Fund to the Federal Fund due to the increase in the federal participation rate due to the COVID-19 pandemic that was in place for two additional quarters during the current year. The intergovernmental aid expenditure increase was the result of an increase in grants to local governments. Public safety expenditures increase during the current year as a result of the planning and response to the potential civil unrest from a high profile trial and related protests. Transportation grants to Metropolitan Council (component unit) also increased during the current year.

During the current year, motor vehicle taxes increased in the Trunk Highway Fund (special revenue fund) as a result of an increase in new and used motor vehicles sales.

The decrease in transportation expenditures resulted from a decrease in grants to local units of government in the Municipal State-aid Street Fund (special revenue fund) and an increase in capitalized projects in the Trunk Highway Fund (special revenue fund). The increase in higher education expenditures related to grants to the University of Minnesota (component unit) for capital projects in the Building Fund (capital project fund).

Proprietary Funds – Enterprise and Internal Service Funds

The statements for proprietary funds provide the same type of information found in the Government-wide Financial Statements, but in more detail.

Enterprise Funds

The state's enterprise funds are included in the Business-type Activities column of the Statement of Activities. Enterprise funds net position decreased by \$1.2 billion during the current year. This primarily resulted from a \$10.5 million increase in net position of the State Colleges and Universities Fund and a \$1.2 billion decrease in net position of the Unemployment Insurance Fund. For further discussion, see the Government-wide Financial Analysis – Business-type Activities section.

Internal Service Funds

The state's internal service funds are included in the Governmental Activities column of the Statement of Activities; however, eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once in the function for which the expenses were made.

The implementation of GASB 68, "Accounting and Financial Reporting for Pensions," which required the recording of the net pension liability and the deferred inflows and outflows of resources associated with pensions, has caused many of the nonmajor enterprise and internal services funds to end the fiscal year in a deficit net position. The actuarially determined amounts are likely to vary significantly from year to year and are managed by the retirement systems and state Legislature to ensure the defined benefit plans are adequately funded to pay plan benefits to employees participating as they become due. For these reasons, the state does not include the pension-related liabilities or deferred inflow and outflows of resources in the

rate-setting process for managing these funds as long as the funds are contributing the statutory required contributions. The amounts will continue to be monitored by the retirement systems administering these plans and the state Legislature.

General Fund Budgetary Highlights

Several significant economic forecast and budget actions occurred prior to and during fiscal year 2021. These are material to understanding changes in General Fund balances that occurred in fiscal year 2021. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes 16A.152, require that the budget be balanced for the biennium. The following highlights material actions taken by the state Legislature and the Governor affecting fiscal year 2021.

Actions Establishing the Fiscal Year 2021 Budget

The budget for state fiscal year 2021 was adopted in May and June 2019. The February 2019 Budget and Economic Forecast projected a budgetary balance of \$1.052 billion for the 2020-21 biennium. General Fund revenues for the biennium were forecast to be \$47.941 billion, \$2.728 billion (6.0 percent) higher than the previous biennium. General Fund expenditures for the biennium were expected to be \$47.403 billion, \$1.895 billion (4.2 percent) higher than the previous biennium. The 2019 Legislative Sessions concluded on May 25, 2019, with a balanced budget for the 2020-21 biennium. The enacted budget increased net General Fund revenues by \$214 million and appropriated an additional \$1.067 billion over the February 2019 Forecast base spending amount; changes were not made to the reserves. After accounting for all revenue and expenditure changes enacted for the current biennium, the General Fund balance at the end of the 2020-21 biennium was estimated to be \$242 million.

Investments over base spending in the General Fund included \$569 million in new spending in E-12 education, largely due to 2 percent annual increase to the basic education formula, \$150 million increase in higher education spending, \$132 million higher spending for the courts and public safety, \$84 million higher appropriations for transportation spending, a \$64 million increase in property tax aids and credits and \$184 million in other areas of the budget. The spending increases were offset by a \$101 million spending decrease in health and human services due to \$270 million in costs transferred to the Health Care Access Fund (special revenue fund), which was partially offset by other investments in health and human services. Revenue changes included conformity to federal tax law for individual income taxes, pass-through income, and corporate income taxes, which generated additional General Fund revenue. The net tax income increase was then partially offset by a reduction to income tax rates, expansion of the working family credit, and a reduction to the statewide property tax. Transfers from other funds also added resources to the General Fund.

After the 2019 legislative sessions, the enacted budget for fiscal year 2021 included \$3.080 billion in carry forward from fiscal year 2019, \$48.155 billion in General Fund revenues, \$48.470 billion in General Fund spending, \$2.425 billion in cash flow and budgetary reserves, \$98 million in a stadium reserve account, and a \$242 million ending budgetary balance.

Budget and Forecast Actions Impacting Fiscal Year 2021

The November 2019 Budget and Economic Forecast increased the projected balance for the 2020-21 biennium to \$1.616 billion. However, under statutory requirements, a portion of any November forecast balance is allocated to the Budget Reserve Account until the statutorily defined target is met. With the November 2019 forecast, \$284 million was allocated to the Budget Reserve Account, bringing it to the target level of \$2.359 billion. After the reserve allocation, the available General Fund balance was \$1.332 billion. The overall forecast gain was driven by a favorable close to fiscal year 2019 which increased

resources carried into fiscal year 2020 by \$815 million and the General Fund revenue forecast was increased \$501 million. Spending estimates were largely unchanged, down \$7 million.

With the February 2020 forecast, an improved revenue forecast and lower spending estimates resulted in a \$181 million increase in the projected balance compared to the November 2019 forecast. Given this, the 2020-21 biennium was projected to conclude with a budgetary balance of \$1.513 billion.

In May 2020, Minnesota Management and Budget released a limited interim budget projection in order to give policy makers updated budget information after the onset of the COVID-19 pandemic and resulting economic changes. The projection was more limited than the regular November and February budget and economic forecasts. For revenues, only the largest General Fund revenue sources – income, sales, corporate, and select excise taxes – were re-estimated. For expenditures, only Medicaid, including increased federal participation, and other public programs administered by the Department of Human Services were re-estimated. Legislative action taken prior to the release of the May 2020 Interim Budget Projection was also included.

The COVID-19 pandemic and resulting economic crisis was estimated to have had direct and immediate impact on the 2020-21 biennium General Fund budget. With the May 2020 Interim Budget Projection, General Fund revenue was projected to be \$3.611 billion (7.4 percent) lower than the February 2020 forecast and state spending, including enacted appropriations, was expected to be \$391 million higher than the February 2020 forecast. These changes, partially offset by a \$63 million lower forecast balance in the Stadium Reserve Account, resulted in a projected deficit of \$2.426 billion for the biennium. By law, the \$2.359 billion Budget Reserve Account and \$350 million Cash Flow Account remained intact with this projection. Legislative changes in the 2020 regular session and multiple special sessions reduced the projected deficit in the 2020-21 biennium to \$2.314 billion.

Eight months into the pandemic, the impact on state revenues and spending was not as expected in May 2020. The November 2020 forecast showed significant improvement to the state's financial position for the 2020-21 biennium. A surplus of \$636 million was projected for the 2020-21 biennium. A favorable closing variance to fiscal year 2020 added \$187 million to the ending balance and \$1.912 billion (4.2 percent) was added to the revenue forecast for fiscal year 2021. Additionally, spending was down \$1.053 billion (2.2 percent) largely due to higher federal participation in Medical Assistance (MA) combined with lower health care consumption. The stadium reserve was increased by \$15 million.

Given the newly projected surplus in fiscal year 2021, the legislature convened in December 2020 to establish one-time state aid programs for pandemic business relief and unemployment insurance. In total, \$242 million was appropriated for business relief to small businesses, bars, restaurants, movie theaters, and bowling alleys in addition to a contingent appropriation for unemployment insurance. At the conclusion for the December 2020 special session, \$384 million remained in the ending balance.

The February 2021 forecast increased the General Fund revenue projection for fiscal year 2021 and adjusted down spending estimates relative to prior estimates. The revenue forecast added \$544 million (1.1 percent) while spending estimates were reduced \$83 million (0.2 percent) compared to the November 2020 forecast, adjusted for actions in the December special session. The \$2.377 budget reserve balance, \$350 million cash flow account, and \$81 million stadium reserve were unchanged from prior estimates.

The 2021 regular and special legislative session made minimal changes to the 2020-21 biennial budget. Changes including recognizing \$30 million in cancellations from unspent appropriations and \$60 million in allocating prior General Fund spending to the federal coronavirus relief funds resulted in adding \$90 million to the projected ending balance for the biennium. As of the end of the 2021 special legislative session in June, the 2020-21 biennium was projected to end with a balance of \$1.112 billion.

The biennium ended with a positive General Fund balance of \$4.052 billion, \$2.940 billion higher than estimated at the end of the 2021 legislative sessions. At close, the 2020-21 biennial total resources – including tax and non-tax revenues, transfers-in, and prior year adjustments were \$2.775 billion (5.8 percent) higher than prior estimates. Tax revenues were \$2.616 billion (5.8 percent) while non-tax revenue was \$69 million (4.1 percent) higher than projected. Transfers from other funds and other resources were \$91 million (9.9 percent) higher primarily due to reallocating prior year spending from the COVID-19 response account to federal sources, resulting in remaining funds transferring back to the General Fund.

Actual spending for the 2020-21 biennium was \$331 million (0.7 percent) below the end of session estimates, however, a significant portion of that total, \$111 million, is attributed to unspent appropriations that carried forward into the current biennium and are available to be spent. Health and human services spending was \$102 million lower, which was driven by lower spending in operating and grant programs; \$19 million of the savings carries forward and is appropriated for spending in the 2022-23 biennium. E-12 education spending was \$84 million (0.4 percent) below the end of session estimates primarily due to fewer-than-expected students. Property tax aids and credits expenditures were \$80 million (2.0 percent) lower than end of session estimates mainly due to refinancing COVID-19 small business relief payments for restaurants, bars, gyms, and bowling centers with federal Coronavirus Relief funds.

The 2020-21 biennium concluded with a budget reserve balance of \$2.406 billion, \$29 million higher than expected due to a statutory allocation of surplus assigned risk insurance funds. The stadium reserve ended the biennium with a balance of \$107 million, \$26 million higher than projected due to higher lawful gambling receipts. The cash flow account was unchanged from prior estimates, ending with a balance of \$350 million.

Budget and GAAP Based Financial Outlook

Minnesota budgets and manages its financial affairs on a budgetary basis, which primarily uses a cash basis of accounting. Revenues are recorded when received and expenditures are recorded when the payments are made, with the exception that, at year-end, encumbered amounts are included in the expenditures of the year appropriated for budgetary reporting. GAAP requires that the modified accrual basis of accounting be used to prepare governmental fund statements. The modified accrual basis of accounting recognizes revenues when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Expenditures are recognized when a liability occurs.

On a budgetary basis, the state's General Fund ended fiscal year 2021 with a balance of \$4.669 billion. On a GAAP basis, the General Fund reported a balance of \$8.908 billion for fiscal year 2021, a difference of \$4.239 billion from the budgetary General Fund balance. The difference between the General Fund budgetary and GAAP fund balance results from two primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. Second, several funds are included in the GAAP fund balance which are not included in the budgetary fund balance. These additional funds reported a fund balance of \$2.679 billion. The difference between the GAAP basis and budgetary basis fund balance of the General Fund, excluding these additional funds not reported in the budgetary fund balance, was \$1.560 billion. Additional information on the differences between the budgetary basis and the GAAP basis for the General Fund is included in Note 18 – Budgetary Basis vs. GAAP of the notes to the financial statements.

When the May 2020 Interim budget projection was released, a deficit of \$2.426 billion was projected for the biennium. Subsequent legislative changes in the 2020 regular session and multiple special sessions reduced the projected deficit in the 2020-21 biennium to \$2.314 billion. Eight months into the pandemic, the impact on state revenues and spending was not the same as expected in May. The November 2020 forecast showed significant improvement to the state's financial position. A surplus of \$636 million was projected

for the 2020-21 biennium, an improvement of \$2.950 billion compared to estimates published at the end of the October special session.

Revenue in the 2020-21 biennium was projected to reach \$47.100 billion, an increase of \$1.912 billion (4.2 percent) over end of session estimates. Forecast increases in all major taxes contributed to the overall change.

Reduced spending in fiscal year 2020 combined with reduced estimated spending in fiscal year 2021 resulted in a total of \$1.053 billion (2.2 percent) in lower spending projected for the current biennium compared to May estimates, adjusted for legislative changes in the summer and fall. Lower health and human services spending accounted for the majority of change in the spending estimates. Higher federal participation in Medical Assistance combined with lower health care consumption drives the downward forecast adjustment in health and human services. E-12 education spending and debt service spending were also projected to be lower than prior estimates. After adjusting for forecast changes, total spending for the 2020-21 biennium was projected to be \$47.627 billion.

Minnesota Statutes 16A.152 directs MMB to allocate funds to the budget reserve account up to the recommended budget reserve level when there is a projected surplus in the current biennium in the November Budget and Economic Forecast. The 2020-21 biennial budget reserve balance of \$2.377 billion exceeded this target level so there was no additional allocation to the budget reserve with the November 2020 Budget and Economic Forecast. The 2020-21 biennium projected balance of the stadium reserve account was \$81 million, \$15 million higher than prior estimates. The Cash Flow account balance was unchanged at \$350 million.

The May 2020 interim budget projection, adjusted for legislative changes in the summer and fall, estimated that spending would exceed revenue in the 2022-23 biennium by almost \$5 billion. Current law reduces the balance of the budget reserve by \$491 million in fiscal year 2022 and the stadium reserve growth impacts the General Fund bottom line. After accounting for reserve changes and excluding the impact of the budgetary balance in the current biennium, prior projections estimate a \$4.539 billion budgetary shortfall in 2022-23 biennium. With the updated November 2020 Budget and Economic Forecast, the improved revenue outlook and lower spending estimates in the 2020-21 biennium carry through the budget horizon into the 2022-23 biennium, resulting in a projected budgetary shortfall of \$1.273 billion for the next biennium. This projected shortfall excludes any balance from the current biennium.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2021, was \$26.6 billion, less accumulated depreciation of \$5.2 billion, resulting in a net book value of \$21.4 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures, internally generated computer software, and equipment. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

Capital Assets June 30, 2021 and 2020 (In Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Capital Assets not Depreciated: | | | | | | |
| Land | \$ 2,844,724 | \$ 2,788,654 | \$ 93,934 | \$ 94,996 | \$ 2,938,658 | \$ 2,883,650 |
| Buildings, Structures, Improvements | 342,252 | 333,834 | — | — | 342,252 | 333,834 |
| Construction in Progress | 217,477 | 316,029 | 73,166 | 114,572 | 290,643 | 430,601 |
| Development in Progress | 244,144 | 231,748 | — | — | 244,144 | 231,748 |
| Infrastructure | 12,278,516 | 11,725,576 | — | — | 12,278,516 | 11,725,576 |
| Easements | 516,407 | 466,507 | — | — | 516,407 | 466,507 |
| Art and Historical Treasures | 9,071 | 7,724 | — | — | 9,071 | 7,724 |
| Total Capital Assets not Depreciated | <u>\$ 16,452,591</u> | <u>\$ 15,870,072</u> | <u>\$ 167,696</u> | <u>\$ 209,568</u> | <u>\$ 16,620,287</u> | <u>\$ 16,079,640</u> |
| Capital Assets Depreciated: | | | | | | |
| Buildings, Structures, Improvements | \$ 3,686,627 | \$ 3,481,419 | \$ 3,967,581 | \$ 3,895,565 | \$ 7,654,208 | \$ 7,376,984 |
| Infrastructure | 452,059 | 423,225 | 30,251 | 28,153 | 482,310 | 451,378 |
| Library Collections | — | — | 34,686 | 35,784 | 34,686 | 35,784 |
| Internally Generated Computer Software | 402,586 | 434,146 | 64,877 | 65,047 | 467,463 | 499,193 |
| Easements | 4,028 | 3,897 | — | — | 4,028 | 3,897 |
| Equipment, Furniture, Fixtures | 967,963 | 928,644 | 350,705 | 347,171 | 1,318,668 | 1,275,815 |
| Total Capital Assets Depreciated | <u>\$ 5,513,263</u> | <u>\$ 5,271,331</u> | <u>\$ 4,448,100</u> | <u>\$ 4,371,720</u> | <u>\$ 9,961,363</u> | <u>\$ 9,643,051</u> |
| Less: Accumulated Depreciation | <u>(2,655,308)</u> | <u>(2,509,905)</u> | <u>(2,517,927)</u> | <u>(2,408,435)</u> | <u>(5,173,235)</u> | <u>(4,918,340)</u> |
| Capital Assets Net of Depreciation | <u>\$ 2,857,955</u> | <u>\$ 2,761,426</u> | <u>\$ 1,930,173</u> | <u>\$ 1,963,285</u> | <u>\$ 4,788,128</u> | <u>\$ 4,724,711</u> |
| Total | <u>\$ 19,310,546</u> | <u>\$ 18,631,498</u> | <u>\$ 2,097,869</u> | <u>\$ 2,172,853</u> | <u>\$ 21,408,415</u> | <u>\$ 20,804,351</u> |

The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated, and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 3,000 bridges that are maintained by the Minnesota Department of Transportation (MnDOT).

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2020, indicated that the average PQI for principal arterial pavement was 3.6 and 3.4 for all other pavements. The state has maintained a stable condition of pavement over the past several years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar

year 2020, indicated that 94.6 percent of principal arterial system bridges and 94.0 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

During the current year, expenditures were fairly consistent with budget. The increase in capitalized pavement expenditures compared to budget is primarily related to additional costs on projects associated with a change in scope.

Additional information on the state’s capital assets and infrastructure under the modified approach is included in Note 6 – Capital Assets of the notes to the financial statements and in the required supplementary information, respectively.

Debt Administration

The authority of the state to incur general obligation debt is described in Article XI, Sections 5 and 7, of the state’s constitution. General obligation bonds, issued by the state, are backed by the full faith, credit, and taxing powers of the state.

The state’s general obligation bonds were rated on June 30, 2021, as follows:

- AAA by Fitch Ratings
- AAA by Standard & Poor’s
- Aa1 by Moody’s Investors Service

The Legislature also statutorily authorizes other types of debt.

The state issues revenue bonds, which are payable solely from rentals, revenues, and other income, and charges and monies that were pledged for repayment.

The state issued state General Fund appropriation refunding bonds to refund bonds issued by a blended component unit, Tobacco Securitization Authority, which no longer exists. The state also issued state General Fund appropriation bonds to finance the state and City of Minneapolis shares of the costs of a professional football stadium project and the state financed the Lewis and Clark Regional Water System project.

The Certificates of Participation were issued by the state to finance the statewide systems, integrated tax system, and the legislative office facility.

**Outstanding Bonded Debt and Unamortized Premium
June 30, 2021 and 2020
(In Thousands)**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|------------------------------|-------------------------|---------------------|--------------------------|-------------------|--------------------------|---------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| General Obligation | \$ 6,915,311 | \$ 7,025,411 | \$ 199,199 | \$ 214,906 | \$ 7,114,510 | \$ 7,240,317 |
| Revenue | 28,580 | 31,410 | 232,993 | 266,519 | 261,573 | 297,929 |
| State Appropriation Bonds | 956,012 | 944,767 | — | — | 956,012 | 944,767 |
| Certificate of Participation | 76,257 | 79,038 | — | — | 76,257 | 79,038 |
| Total | \$ 7,976,160 | \$ 8,080,626 | \$ 432,192 | \$ 481,425 | \$ 8,408,352 | \$ 8,562,051 |

During fiscal year 2021, the state issued the following bonds:

- \$330.4 million in general obligation state various purpose bonds
- \$152.0 million in general obligation state trunk highway bonds
- \$20.5 million in taxable state bonds
- \$128.1 million in state various purpose refunding bonds
- \$163.4 million in state trunk highway refunding bonds
- \$224.0 million in taxable state various purpose bonds
- \$180.2 million in taxable state trunk highway refunding bonds
- \$66.3 million in state appropriation bonds for the Duluth Regional Exchange District

Additional information on the state’s long-term debt obligations is located in Note 12 – General Long-Term Liabilities – Primary Government in the notes to the financial statements.

Requests for Information

This financial report is designed to provide Minnesotans, taxpayers, customers, investors, and creditors with a general overview of the state’s finances and to demonstrate the state’s accountability for the money it receives.

Please contact us if you have questions about this report or to request additional financial information.

Minnesota Management and Budget
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota, 55155-1489
651-201-8000
<https://www.mn.gov/mmb/>

STATE OF MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2021
(IN THOUSANDS)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--|-------------------------|--------------------------|----------------------|----------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 17,241,355 | \$ 1,884,371 | \$ 19,125,726 | \$ 1,667,600 |
| Investments | 4,013,460 | 24,813 | 4,038,273 | 1,351,386 |
| Accounts Receivable | 3,268,782 | 511,931 | 3,780,713 | 562,140 |
| Due from Component Units | 21,167 | — | 21,167 | — |
| Due from Primary Government | — | — | — | 292,674 |
| Accrued Investment/Interest Income | 27,803 | — | 27,803 | 28,699 |
| Federal Aid Receivable | 2,462,068 | 167,719 | 2,629,787 | 180,606 |
| Inventories | 52,622 | 23,138 | 75,760 | 62,989 |
| Loans and Notes Receivable | 22,180 | 3,439 | 25,619 | 303,321 |
| Internal Balances | 4,427 | (4,427) | — | — |
| Other Assets | 13,145 | 4,295 | 17,440 | 47,942 |
| Total Current Assets | \$ 27,127,009 | \$ 2,615,279 | \$ 29,742,288 | \$ 4,497,357 |
| Noncurrent Assets: | | | | |
| Cash and Cash Equivalents-Restricted | \$ — | \$ 56,607 | \$ 56,607 | \$ 2,132,730 |
| Investments-Restricted | — | 303 | 303 | 3,188,868 |
| Accounts Receivable-Restricted | — | — | — | 101,316 |
| Due from Primary Government-Restricted | — | — | — | 2,857 |
| Due from Primary Government | — | — | — | 2,231 |
| Due from Component Units | 96,494 | — | 96,494 | — |
| Investments | — | — | — | 6,993,749 |
| Accounts Receivable | 743,269 | 2,376 | 745,645 | 493,089 |
| Loans and Notes Receivable | 209,616 | 10,951 | 220,567 | 3,076,547 |
| Depreciable Capital Assets (Net) | 2,857,955 | 1,930,173 | 4,788,128 | 7,042,544 |
| Nondepreciable Capital Assets | 4,174,075 | 167,696 | 4,341,771 | 2,418,060 |
| Infrastructure (Not depreciated) | 12,278,516 | — | 12,278,516 | — |
| Other Assets | 1,973 | — | 1,973 | 18,313 |
| Total Noncurrent Assets | \$ 20,361,898 | \$ 2,168,106 | \$ 22,530,004 | \$ 25,470,304 |
| Total Assets | \$ 47,488,907 | \$ 4,783,385 | \$ 52,272,292 | \$ 29,967,661 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Accumulated Decrease in Fair Value of Hedging Derivative Instruments | \$ — | \$ — | \$ — | \$ 13,932 |
| Bond Refunding | 98,421 | 1,823 | 100,244 | 5,470 |
| Deferred Pension Outflows | 817,343 | 151,243 | 968,586 | 80,815 |
| Deferred Other Postemployment Benefits Outflows | 101,240 | 22,441 | 123,681 | 73,511 |
| Deferred Derivative Instrument Outflows | — | — | — | 1,495 |
| Total Deferred Outflows of Resources | \$ 1,017,004 | \$ 175,507 | \$ 1,192,511 | \$ 175,223 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 6,701,710 | \$ 451,921 | \$ 7,153,631 | \$ 476,213 |
| Due to Component Units | 239,945 | — | 239,945 | — |
| Due to Primary Government | — | — | — | 52,322 |
| Unearned Revenue | 1,548,094 | 499,708 | 2,047,802 | 154,775 |
| Accrued Interest Payable | 108,109 | — | 108,109 | 55,038 |
| Bonds and Notes Payable | 575,845 | 87,388 | 663,233 | 961,065 |
| Capital Leases Payable | 11,171 | 1,699 | 12,870 | 5,492 |
| Certificates of Participation Payable | 2,405 | — | 2,405 | — |
| Claims Payable | 181,883 | 33,508 | 215,391 | 271,627 |
| Compensated Absences Payable | 52,761 | 19,212 | 71,973 | 273,721 |
| Other Liabilities | — | 13,810 | 13,810 | 4,169 |
| Total Current Liabilities | \$ 9,421,923 | \$ 1,107,246 | \$ 10,529,169 | \$ 2,254,422 |

STATE OF MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2021
(IN THOUSANDS)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--|-------------------------|--------------------------|----------------------|----------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Noncurrent Liabilities: | | | | |
| Accounts Payable-Restricted | \$ — | \$ — | \$ — | \$ 164,162 |
| Unearned Revenue-Restricted | — | — | — | 185,152 |
| Accrued Interest Payable-Restricted | — | — | — | 13,390 |
| Accounts Payable | — | — | — | 66,251 |
| Due to Primary Government | — | — | — | 96,494 |
| Unearned Revenue | 143,394 | 281 | 143,675 | 12,576 |
| Interest Rate Swap Agreements | — | — | — | 13,932 |
| Bonds and Notes Payable | 7,372,764 | 1,495,423 | 8,868,187 | 7,073,134 |
| Due to Component Units | 2,231 | — | 2,231 | — |
| Capital Leases Payable | 29,876 | 2,665 | 32,541 | 24,460 |
| Certificates of Participation Payable | 73,852 | — | 73,852 | — |
| Claims Payable | 693,849 | 1,505 | 695,354 | 588,075 |
| Compensated Absences Payable | 342,034 | 147,793 | 489,827 | 40,428 |
| Other Postemployment Benefits | 600,933 | 86,968 | 687,901 | 417,382 |
| Net Pension Liability | 2,856,818 | 382,578 | 3,239,396 | 345,873 |
| Funds Held in Trust | — | — | — | 562,873 |
| Other Liabilities | — | 12,775 | 12,775 | 50,594 |
| Total Noncurrent Liabilities | \$ 12,115,751 | \$ 2,129,988 | \$ 14,245,739 | \$ 9,654,776 |
| Total Liabilities | \$ 21,537,674 | \$ 3,237,234 | \$ 24,774,908 | \$ 11,909,198 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Bond Refunding | \$ 23,794 | \$ 3,190 | \$ 26,984 | \$ 5,263 |
| Capital Lease Restructuring | 8,082 | — | 8,082 | — |
| Deferred Revenue | 445,189 | — | 445,189 | 36,854 |
| Deferred Pension Inflows | 2,970,597 | 539,075 | 3,509,672 | 778,262 |
| Deferred Other Postemployment Benefits Inflows | 97,415 | 23,746 | 121,161 | 13,347 |
| Total Deferred Inflows of Resources | \$ 3,545,077 | \$ 566,011 | \$ 4,111,088 | \$ 833,726 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | \$ 15,704,737 | \$ 1,671,095 | \$ 17,375,832 | \$ 6,273,615 |
| Restricted to: | | | | |
| Improve Agricultural, Environmental and Energy Resources | \$ 3,443,981 | \$ — | \$ 3,443,981 | \$ — |
| Enhance Arts and Culture | 44,861 | — | 44,861 | — |
| Acquire, Maintain, and Improve Land and Buildings | — | 288 | 288 | — |
| Retire Indebtedness | 410,138 | 118,635 | 528,773 | — |
| Develop Economy and Workforce | 200,111 | 3,696 | 203,807 | — |
| Enhance E-12 Education | 16,778 | — | 16,778 | — |
| Enhance State Government | 63,258 | — | 63,258 | — |
| Enhance Health and Human Services | 81,916 | — | 81,916 | — |
| Enhance Higher Education | 388 | 24,190 | 24,578 | — |
| Enhance 911 Services and Increase Safety | 7,595 | 97,792 | 105,387 | — |
| School Aid-Expendable | 9,242 | — | 9,242 | — |
| School Aid-Nonexpendable | 1,958,436 | — | 1,958,436 | — |
| Construct Highways and Improve Infrastructure | 1,778,881 | — | 1,778,881 | — |
| Other Purposes | — | 84,836 | 84,836 | — |
| Component Units | — | — | — | 10,013,254 |
| Total Restricted | \$ 8,015,585 | \$ 329,437 | \$ 8,345,022 | \$ 10,013,254 |
| Unrestricted | \$ (297,162) | \$ (844,885) | \$ (1,142,047) | \$ 1,113,091 |
| Total Net Position | \$ 23,423,160 | \$ 1,155,647 | \$ 24,578,807 | \$ 17,399,960 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)

| FUNCTIONS/PROGRAMS | PROGRAM REVENUES | | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Agricultural, Environmental and Energy Resources | \$ 1,363,384 | \$ 501,373 | \$ 736,155 | \$ 14,143 |
| Economic and Workforce Development | 942,801 | 69,751 | 360,998 | — |
| General Education | 11,785,920 | 12,564 | 1,877,679 | — |
| General Government | 1,461,124 | 350,360 | 49,384 | 36 |
| Health and Human Services | 21,194,790 | 493,839 | 13,141,618 | — |
| Higher Education | 1,038,674 | — | 193 | — |
| Intergovernmental Aid | 2,860,441 | — | 902,676 | — |
| Public Safety and Corrections | 1,359,127 | 205,024 | 197,383 | — |
| Transportation | 3,462,174 | 54,396 | 773,777 | 208,029 |
| Interest | 41,328 | — | — | — |
| Total Governmental Activities | \$ 45,509,763 | \$ 1,687,307 | \$ 18,039,863 | \$ 222,208 |
| Business-type Activities: | | | | |
| State Colleges and Universities | \$ 2,076,496 | \$ 751,197 | \$ 531,160 | \$ — |
| Unemployment Insurance | 7,884,357 | 661,954 | 5,987,660 | — |
| Lottery | 615,118 | 803,641 | — | — |
| Others | 640,261 | 655,813 | — | — |
| Total Business-type Activities | \$ 11,216,232 | \$ 2,872,605 | \$ 6,518,820 | \$ — |
| Total Primary Government | \$ 56,725,995 | \$ 4,559,912 | \$ 24,558,683 | \$ 222,208 |
| Component Units: | | | | |
| Housing Finance | \$ 663,798 | \$ 118,063 | \$ 743,989 | \$ — |
| Metropolitan Council | 1,218,241 | 350,568 | 769,592 | 552,055 |
| University of Minnesota | 4,124,286 | 1,265,801 | 1,946,761 | 75,659 |
| Others | 667,744 | 123,151 | 201,357 | 4,572 |
| Total Component Units | \$ 6,674,069 | \$ 1,857,583 | \$ 3,661,699 | \$ 632,286 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Individual Income Taxes | \$ 14,199,891 | \$ — | \$ 14,199,891 | \$ — |
| Corporate Income Taxes | 2,402,120 | — | 2,402,120 | — |
| Sales Taxes | 6,736,757 | — | 6,736,757 | — |
| Property Taxes | 788,623 | — | 788,623 | — |
| Motor Vehicle Taxes | 1,836,728 | — | 1,836,728 | — |
| Fuel Taxes | 855,981 | — | 855,981 | — |
| Other Taxes | 3,315,179 | — | 3,315,179 | 88,027 |
| Tobacco Settlement | 259,124 | — | 259,124 | — |
| Unallocated Investment/Interest Income | 97,485 | 7,923 | 105,408 | 1,772,328 |
| Other Revenues | 155,267 | 918 | 156,185 | 258,587 |
| State Grants Not Restricted | — | — | — | 1,091,081 |
| Transfers | (620,256) | 620,256 | — | — |
| Total General Revenues and Transfers | \$ 30,026,899 | \$ 629,097 | \$ 30,655,996 | \$ 3,210,023 |
| Change in Net Position | \$ 4,466,514 | \$ (1,195,710) | \$ 3,270,804 | \$ 2,687,522 |
| Net Position, Beginning, as Reported | \$ 18,863,481 | \$ 2,351,357 | \$ 21,214,838 | \$ 14,706,845 |
| Prior Period Adjustments | 87,719 | — | 87,719 | — |
| Change in Accounting Principle | 5,446 | — | 5,446 | 5,593 |
| Net Position, Beginning, as Restated | \$ 18,956,646 | \$ 2,351,357 | \$ 21,308,003 | \$ 14,712,438 |
| Net Position, Ending | \$ 23,423,160 | \$ 1,155,647 | \$ 24,578,807 | \$ 17,399,960 |

The notes are an integral part of the financial statements.

| NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION | | | |
|--|--------------------------|------------------------|---------------------|
| PRIMARY GOVERNMENT | | | COMPONENT UNITS |
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| \$ (111,713) | | \$ (111,713) | |
| (512,052) | | (512,052) | |
| (9,895,677) | | (9,895,677) | |
| (1,061,344) | | (1,061,344) | |
| (7,559,333) | | (7,559,333) | |
| (1,038,481) | | (1,038,481) | |
| (1,957,765) | | (1,957,765) | |
| (956,720) | | (956,720) | |
| (2,425,972) | | (2,425,972) | |
| <u>(41,328)</u> | | <u>(41,328)</u> | |
| \$ (25,560,385) | | \$ (25,560,385) | |
| | \$ (794,139) | \$ (794,139) | |
| | (1,234,743) | (1,234,743) | |
| | 188,523 | 188,523 | |
| | <u>15,552</u> | <u>15,552</u> | |
| | \$ (1,824,807) | \$ (1,824,807) | |
| \$ (25,560,385) | \$ (1,824,807) | \$ (27,385,192) | |
| | | | \$ 198,254 |
| | | | 453,974 |
| | | | (836,065) |
| | | | <u>(338,664)</u> |
| | | | \$ (522,501) |

STATE OF MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2021
(IN THOUSANDS)

| | GENERAL | FEDERAL | NONMAJOR FUNDS | TOTAL |
|--|----------------------|---------------------|---------------------|----------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 9,337,281 | \$ 1,596,685 | \$ 5,685,325 | \$ 16,619,291 |
| Investments | 1,651,652 | — | 2,361,808 | 4,013,460 |
| Accounts Receivable | 3,191,029 | 515,355 | 300,082 | 4,006,466 |
| Interfund Receivables | 226,223 | 49 | 425,918 | 652,190 |
| Due from Component Units | 5,467 | — | 112,194 | 117,661 |
| Accrued Investment/Interest Income | 21,702 | — | 6,101 | 27,803 |
| Federal Aid Receivable | — | 2,400,967 | 61,101 | 2,462,068 |
| Inventories | — | 5,763 | 46,447 | 52,210 |
| Loans and Notes Receivable | 96,388 | 4,767 | 130,641 | 231,796 |
| Other Assets | — | — | 19 | 19 |
| Investment in Land | — | — | 15,956 | 15,956 |
| Total Assets | \$ 14,529,742 | \$ 4,523,586 | \$ 9,145,592 | \$ 28,198,920 |
| LIABILITIES | | | | |
| Accounts Payable | \$ 3,259,496 | \$ 2,754,808 | \$ 722,476 | \$ 6,736,780 |
| Interfund Payables | 46,567 | 104,396 | 444,332 | 595,295 |
| Due to Component Units | 111,429 | 115,777 | 12,068 | 239,274 |
| Unearned Revenue | 149,027 | 1,531,019 | — | 1,680,046 |
| Total Liabilities | \$ 3,566,519 | \$ 4,506,000 | \$ 1,178,876 | \$ 9,251,395 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Revenue | \$ 2,055,349 | \$ — | \$ 107,164 | \$ 2,162,513 |
| Total Deferred Inflows of Resources | \$ 2,055,349 | \$ — | \$ 107,164 | \$ 2,162,513 |
| FUND BALANCES | | | | |
| Nonspendable | \$ 1,656,575 | \$ — | \$ 2,004,883 | \$ 3,661,458 |
| Restricted | 91,030 | 12,803 | 4,925,392 | 5,029,225 |
| Committed | 69,968 | — | 879,424 | 949,392 |
| Assigned | 1,885,096 | — | 49,853 | 1,934,949 |
| Unassigned | 5,205,205 | 4,783 | — | 5,209,988 |
| Total Fund Balances | \$ 8,907,874 | \$ 17,586 | \$ 7,859,552 | \$ 16,785,012 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 14,529,742 | \$ 4,523,586 | \$ 9,145,592 | \$ 28,198,920 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021
(IN THOUSANDS)

| | | |
|---|----|-------------------|
| Total Fund Balance for Governmental Funds | \$ | 16,785,012 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Infrastructure | \$ | 12,278,516 |
| Nondepreciable Capital Assets | | 4,157,858 |
| Depreciable Capital Assets | | 5,296,147 |
| Accumulated Depreciation | | (2,505,848) |
| | | 19,226,673 |
| Net effect of state revenues that will be collected after year-end but not available to pay for current period expenditures and refunds of revenues that will be paid after year-end. | | 1,717,324 |
| Net Deferred Outflows (Inflows) resulting from the refunding of debt and restructuring of capital leases included in the Statement of Net Position. | | 66,545 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. | | 399,254 |
| Deferred pension outflows (inflows) resulting primarily from actuarial gains and losses to be amortized are included in the Statement of Net Position. | | (2,077,961) |
| Deferred other postemployment benefits outflows (inflows) resulting primarily from actuarial gains and losses to be amortized are included in the Statement of Net Position. | | 3,775 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of: | | |
| Accrued Interest Payable | \$ | (108,061) |
| General Obligation Bonds Payable | | (6,080,064) |
| State Appropriation Bonds Payable | | (873,525) |
| Revenue Bonds Payable | | (28,580) |
| Loans and Notes Payable | | (694) |
| Bond Premium Payable | | (917,734) |
| Due to Component Units | | (2,902) |
| Capital Leases Payable | | (41,047) |
| Certificate of Participation Payable | | (67,675) |
| Certificate of Participation Premium Payable | | (8,582) |
| Claims Payable | | (776,204) |
| Compensated Absences Payable | | (379,833) |
| Other Postemployment Benefits | | (593,129) |
| Net Pension Liability | | (2,819,432) |
| | | (12,697,462) |
| Net Position of Governmental Activities | \$ | 23,423,160 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)**

| | GENERAL | FEDERAL | NONMAJOR FUNDS | TOTAL |
|--|----------------------|----------------------|---------------------|----------------------|
| Net Revenues: | | | | |
| Individual Income Taxes | \$ 14,369,219 | \$ — | \$ — | \$ 14,369,219 |
| Corporate Income Taxes | 2,404,057 | — | — | 2,404,057 |
| Sales Taxes | 6,150,751 | — | 604,416 | 6,755,167 |
| Property Taxes | 789,888 | — | — | 789,888 |
| Motor Vehicle Taxes | 392,255 | — | 1,444,012 | 1,836,267 |
| Fuel Taxes | — | — | 854,215 | 854,215 |
| Other Taxes | 3,074,525 | — | 238,582 | 3,313,107 |
| Tobacco Settlement | 254,190 | — | — | 254,190 |
| Federal Revenues | 51,409 | 16,695,134 | 583,814 | 17,330,357 |
| Licenses and Fees | 260,722 | 5,109 | 440,430 | 706,261 |
| Departmental Services | 215,104 | 4,761 | 195,935 | 415,800 |
| Investment/Interest Income | 413,345 | 3,331 | 435,761 | 852,437 |
| Other Revenues | 481,261 | 54,998 | 272,559 | 808,818 |
| Net Revenues | \$ 28,856,726 | \$ 16,763,333 | \$ 5,069,724 | \$ 50,689,783 |
| Expenditures: | | | | |
| Agricultural, Environmental and Energy Resources | \$ 360,345 | \$ 270,092 | \$ 692,185 | \$ 1,322,622 |
| Economic and Workforce Development | 241,243 | 387,325 | 307,671 | 936,239 |
| General Education | 10,019,769 | 1,677,366 | 81,884 | 11,779,019 |
| General Government | 1,041,012 | 32,431 | 107,739 | 1,181,182 |
| Health and Human Services | 8,198,224 | 12,760,770 | 154,021 | 21,113,015 |
| Higher Education | 974,767 | 300 | 63,590 | 1,038,657 |
| Intergovernmental Aid | 1,957,585 | 902,676 | 180 | 2,860,441 |
| Public Safety and Corrections | 854,501 | 201,456 | 258,269 | 1,314,226 |
| Transportation | 536,619 | 429,934 | 2,443,046 | 3,409,599 |
| Total Current Expenditures | \$ 24,184,065 | \$ 16,662,350 | \$ 4,108,585 | \$ 44,955,000 |
| Capital Outlay | 67,393 | 63,079 | 798,984 | 929,456 |
| Debt Service | 33,425 | — | 932,716 | 966,141 |
| Total Expenditures | \$ 24,284,883 | \$ 16,725,429 | \$ 5,840,285 | \$ 46,850,597 |
| Excess of Revenues Over (Under) Expenditures | \$ 4,571,843 | \$ 37,904 | \$ (770,561) | \$ 3,839,186 |
| Other Financing Sources (Uses): | | | | |
| Bond Issuance | \$ — | \$ — | \$ 563,000 | \$ 563,000 |
| Issuance of Refunding Bonds | — | — | 695,655 | 695,655 |
| Payment to Refunded Bonds Escrow Agent | — | — | (695,655) | (695,655) |
| Bond Issuance Premium | — | — | 146,688 | 146,688 |
| Transfers-In | 274,195 | 1,032 | 1,019,240 | 1,294,467 |
| Transfers-Out | (1,582,685) | (43,174) | (341,540) | (1,967,399) |
| Net Other Financing Sources (Uses) | \$ (1,308,490) | \$ (42,142) | \$ 1,387,388 | \$ 36,756 |
| Net Change in Fund Balances | \$ 3,263,353 | \$ (4,238) | \$ 616,827 | \$ 3,875,942 |
| Fund Balances, Beginning, as Reported | \$ 5,554,701 | \$ 17,963 | \$ 7,243,241 | \$ 12,815,905 |
| Prior Period Adjustments | 87,719 | — | — | 87,719 |
| Change in Accounting Principle | 2,101 | 3,861 | (516) | 5,446 |
| Fund Balances, Beginning, as Restated | \$ 5,644,521 | \$ 21,824 | \$ 7,242,725 | \$ 12,909,070 |
| Fund Balances, Ending | \$ 8,907,874 | \$ 17,586 | \$ 7,859,552 | \$ 16,785,012 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)**

| | |
|---|---------------------|
| Net Change in Fund Balances for Governmental Funds | \$ 3,875,942 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded the depreciation in the current period. | |
| Capital Outlay | \$ 929,456 |
| Depreciation | (238,713) |
| | 690,743 |
| Governmental funds report the proceeds from the sale of capital assets as increases in financial resources. However, in the Statement of Activities, only the gain or loss on the sale and the fair market value of donated capital assets are reported. | (5,697) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities is reported in governmental activities but not included in governmental funds. | 55,143 |
| Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. | (186,176) |
| Bond and loan proceeds provide current financial resources to governmental funds; however, issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Position. | (1,405,343) |
| Net changes due to the additions and amortization of deferred inflows and outflows related to the refunding of debt and restructuring of capital leases is reported in the Statement of Activities but not included in governmental funds. | 92,231 |
| Net changes in the net pension liability and the additions and amortization of deferred inflows and outflows related to pensions is reported in the Statement of Activities but not included in governmental funds. | (108,341) |
| Net changes in the other postemployment benefits liability and the additions and amortization of deferred inflows and outflows related to other postemployment benefits is reported in the Statement of Activities but not included in governmental funds. | (19,178) |
| Repayment of bonds, loans, and capital leases are reported as expenditures in governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. | 1,521,159 |
| Net changes in expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds. | (43,969) |
| Change in Net Position of Governmental Activities | \$ 4,466,514 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**MAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
BUDGETARY BASIS
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)**

| | GENERAL FUND | | |
|--|-----------------|----------------|----------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
| Net Revenues: | | | |
| Individual Income Taxes | \$ 12,051,200 | \$ 12,569,700 | \$ 14,103,661 |
| Corporate Income Taxes | 1,154,679 | 1,731,340 | 2,387,370 |
| Sales Taxes | 4,993,622 | 5,805,452 | 6,141,166 |
| Property Taxes | 823,446 | 805,026 | 803,134 |
| Other Taxes | 2,617,752 | 2,890,801 | 2,968,586 |
| Tobacco Settlement | 154,241 | 239,062 | 254,190 |
| Licenses and Fees | 234,371 | 236,149 | 256,380 |
| Departmental Services | 126,914 | 121,321 | 118,615 |
| Investment/Interest Income | 21,352 | 26,955 | 24,950 |
| Other Revenues | 345,377 | 381,246 | 425,371 |
| Net Revenues | \$ 22,522,954 | \$ 24,807,052 | \$ 27,483,423 |
| Expenditures: | | | |
| Agricultural, Environmental and Energy Resources | \$ 236,145 | \$ 231,997 | \$ 225,385 |
| Economic and Workforce Development | 198,280 | 199,771 | 196,842 |
| General Education | 10,041,887 | 9,990,614 | 9,962,951 |
| General Government | 1,035,685 | 1,141,905 | 1,125,395 |
| Health and Human Services | 8,808,561 | 8,057,183 | 7,378,969 |
| Higher Education | 943,619 | 947,470 | 942,949 |
| Intergovernmental Aid | 1,945,357 | 1,966,997 | 1,945,462 |
| Public Safety and Corrections | 847,612 | 873,729 | 859,307 |
| Transportation | 127,044 | 127,306 | 127,145 |
| Total Expenditures | \$ 24,184,190 | \$ 23,536,972 | \$ 22,764,405 |
| Excess of Revenues Over (Under) Expenditures | \$ (1,661,236) | \$ 1,270,080 | \$ 4,719,018 |
| Other Financing Sources (Uses): | | | |
| Transfers-In | \$ 177,973 | \$ 301,915 | \$ 333,695 |
| Transfers-Out | (1,899,043) | (1,899,043) | (1,899,043) |
| Net Other Financing Sources (Uses) | \$ (1,721,070) | \$ (1,597,128) | \$ (1,565,348) |
| Net Change in Fund Balances | \$ (3,382,306) | \$ (327,048) | \$ 3,153,670 |
| Fund Balances, Beginning, as Reported | \$ 4,227,466 | \$ 4,227,466 | \$ 4,227,466 |
| Prior Period Adjustments | — | — | 312,364 |
| Fund Balances, Beginning, as Restated | \$ 4,227,466 | \$ 4,227,466 | \$ 4,539,830 |
| Budgetary Fund Balances, Ending | \$ 845,160 | \$ 3,900,418 | \$ 7,693,500 |
| Less: Appropriation Carryover | — | — | 116,747 |
| Less: Reserved for Long-Term Receivables | — | — | 44,951 |
| Less: Budgetary Reserve | — | — | 2,863,061 |
| Unassigned Fund Balance, Ending | \$ 845,160 | \$ 3,900,418 | \$ 4,668,741 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021
(IN THOUSANDS)**

| | ENTERPRISE FUNDS | | | | INTERNAL SERVICE FUNDS |
|---|-------------------------------|------------------------|---------------------------|--------------|------------------------|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 1,062,418 | \$ 482,263 | \$ 339,690 | \$ 1,884,371 | \$ 622,064 |
| Investments | 24,813 | — | — | 24,813 | — |
| Accounts Receivable | 62,053 | 408,352 | 41,526 | 511,931 | 92,027 |
| Interfund Receivables | 29,150 | 5,598 | 6,000 | 40,748 | 325 |
| Federal Aid Receivable | 69,979 | 97,740 | — | 167,719 | — |
| Inventories | 14,178 | — | 8,960 | 23,138 | 412 |
| Loans and Notes Receivable | 3,439 | — | — | 3,439 | — |
| Prepaid Expenses | 3,788 | — | 507 | 4,295 | 13,126 |
| Total Current Assets | \$ 1,269,818 | \$ 993,953 | \$ 396,683 | \$ 2,660,454 | \$ 727,954 |
| Noncurrent Assets: | | | | | |
| Cash and Cash Equivalents-Restricted | \$ 56,607 | \$ — | \$ — | \$ 56,607 | \$ — |
| Investments-Restricted | 303 | — | — | 303 | — |
| Accounts Receivable | — | — | 2,376 | 2,376 | — |
| Loans and Notes Receivable | 10,951 | — | — | 10,951 | — |
| Depreciable Capital Assets (Net) | 1,790,687 | — | 139,486 | 1,930,173 | 67,656 |
| Nondepreciable Capital Assets | 149,886 | — | 17,810 | 167,696 | 261 |
| Prepaid Expenses | — | — | — | — | 1,973 |
| Total Noncurrent Assets | \$ 2,008,434 | \$ — | \$ 159,672 | \$ 2,168,106 | \$ 69,890 |
| Total Assets | \$ 3,278,252 | \$ 993,953 | \$ 556,355 | \$ 4,828,560 | \$ 797,844 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Bond Refunding | \$ 1,823 | \$ — | \$ — | \$ 1,823 | \$ — |
| Deferred Pension Outflows | 142,617 | — | 8,626 | 151,243 | 9,492 |
| Deferred Other Postemployment Benefits Outflows | 19,158 | — | 3,283 | 22,441 | 1,315 |
| Total Deferred Outflows of Resources | \$ 163,598 | \$ — | \$ 11,909 | \$ 175,507 | \$ 10,807 |
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | \$ 194,275 | \$ 182,905 | \$ 74,741 | \$ 451,921 | \$ 51,847 |
| Interfund Payables | — | 19,636 | 25,539 | 45,175 | 52,318 |
| Unearned Revenue | 57,335 | 428,410 | 13,963 | 499,708 | 11,442 |
| Accrued Interest Payable | — | — | — | — | 48 |
| Bonds and Notes Payable | 42,481 | 44,907 | — | 87,388 | 19,058 |
| Capital Leases Payable | 1,699 | — | — | 1,699 | — |
| Claims Payable | 2,353 | — | 31,155 | 33,508 | 99,528 |
| Compensated Absences Payable | 16,879 | — | 2,333 | 19,212 | 1,641 |
| Other Liabilities | 13,810 | — | — | 13,810 | — |
| Total Current Liabilities | \$ 328,832 | \$ 675,858 | \$ 147,731 | \$ 1,152,421 | \$ 235,882 |

STATE OF MINNESOTA

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2021

(IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | INTERNAL SERVICE FUNDS |
|---|-------------------------------|------------------------|---------------------------|--------------|------------------------|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | |
| Noncurrent Liabilities: | | | | | |
| Unearned Revenue | \$ — | \$ — | \$ 281 | \$ 281 | \$ — |
| Bonds and Notes Payable | 402,149 | 1,093,274 | — | 1,495,423 | 28,954 |
| Capital Leases Payable | 2,665 | — | — | 2,665 | — |
| Claims Payable | 1,505 | — | — | 1,505 | — |
| Compensated Absences Payable | 136,564 | — | 11,229 | 147,793 | 13,321 |
| Other Postemployment Benefits | 67,263 | — | 19,705 | 86,968 | 7,804 |
| Net Pension Liability | 344,746 | — | 37,832 | 382,578 | 37,386 |
| Other Liabilities | 12,775 | — | — | 12,775 | — |
| Total Noncurrent Liabilities | \$ 967,667 | \$ 1,093,274 | \$ 69,047 | \$ 2,129,988 | \$ 87,465 |
| Total Liabilities | \$ 1,296,499 | \$ 1,769,132 | \$ 216,778 | \$ 3,282,409 | \$ 323,347 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Bond Refunding | \$ 3,190 | \$ — | \$ — | \$ 3,190 | \$ — |
| Deferred Pension Inflows | 469,088 | — | 69,987 | 539,075 | 84,785 |
| Deferred Other Postemployment Benefits Inflows | 20,550 | — | 3,196 | 23,746 | 1,265 |
| Total Deferred Inflows of Resources | \$ 492,828 | \$ — | \$ 73,183 | \$ 566,011 | \$ 86,050 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | \$ 1,513,799 | \$ — | \$ 157,296 | \$ 1,671,095 | \$ 22,786 |
| Restricted for: | | | | | |
| Acquire, Maintain, and Improve Land and Buildings | \$ 288 | \$ — | \$ — | \$ 288 | \$ — |
| Retire Indebtedness | 118,635 | — | — | 118,635 | — |
| Develop Economy and Workforce | — | — | 3,696 | 3,696 | — |
| Enhance Higher Education | 24,190 | — | — | 24,190 | — |
| Enhance 911 Services and Increase Safety | — | — | 97,792 | 97,792 | — |
| Other Purposes | — | — | 84,836 | 84,836 | — |
| Total Restricted | \$ 143,113 | \$ — | \$ 186,324 | \$ 329,437 | \$ — |
| Unrestricted | \$ (4,389) | \$ (775,179) | \$ (65,317) | \$ (844,885) | \$ 376,468 |
| Total Net Position | \$ 1,652,523 | \$ (775,179) | \$ 278,303 | \$ 1,155,647 | \$ 399,254 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

(IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | INTERNAL SERVICE FUNDS |
|--|-------------------------------|------------------------|---------------------------|----------------|------------------------|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | |
| Operating Revenues: | | | | | |
| Tuition and Fees | \$ 655,102 | \$ — | \$ — | \$ 655,102 | \$ — |
| Restricted Student Payments, Net | 75,271 | — | — | 75,271 | — |
| Net Sales | — | — | 1,095,689 | 1,095,689 | 326,381 |
| Insurance Premiums | — | 649,417 | 330,560 | 979,977 | 1,124,803 |
| Other Income | 20,824 | 12,537 | 33,205 | 66,566 | 12,166 |
| Total Operating Revenues | \$ 751,197 | \$ 661,954 | \$ 1,459,454 | \$ 2,872,605 | \$ 1,463,350 |
| Less: Cost of Goods Sold | — | — | 612,040 | 612,040 | — |
| Gross Margin | \$ 751,197 | \$ 661,954 | \$ 847,414 | \$ 2,260,565 | \$ 1,463,350 |
| Operating Expenses: | | | | | |
| Purchased Services | \$ 227,664 | \$ — | \$ 90,521 | \$ 318,185 | \$ 212,025 |
| Salaries and Fringe Benefits | 1,411,613 | — | 183,178 | 1,594,791 | 150,747 |
| Student Financial Aid | 106,538 | — | — | 106,538 | — |
| Unemployment Benefits | — | 7,883,169 | — | 7,883,169 | — |
| Claims | — | — | 314,147 | 314,147 | 949,741 |
| Depreciation and Amortization | 137,279 | — | 15,685 | 152,964 | 21,110 |
| Supplies and Materials | 109,644 | — | 5,339 | 114,983 | 19,144 |
| Repairs and Maintenance | 19,796 | — | 860 | 20,656 | 19,810 |
| Indirect Costs | — | — | 3,154 | 3,154 | 3,269 |
| Other Expenses | 36,553 | — | 702 | 37,255 | 1,079 |
| Total Operating Expenses | \$ 2,049,087 | \$ 7,883,169 | \$ 613,586 | \$ 10,545,842 | \$ 1,376,925 |
| Operating Income (Loss) | \$ (1,297,890) | \$ (7,221,215) | \$ 233,828 | \$ (8,285,277) | \$ 86,425 |
| Nonoperating Revenues (Expenses): | | | | | |
| Investment Income | \$ 7,074 | \$ 132 | \$ 717 | \$ 7,923 | \$ 2,180 |
| Federal Grants | 407,998 | 5,987,660 | — | 6,395,658 | — |
| Private Grants | 25,312 | — | — | 25,312 | — |
| Grants and Subsidies | 97,850 | — | — | 97,850 | — |
| Other Nonoperating Revenues | — | — | 6 | 6 | — |
| Interest and Financing Costs | (16,629) | — | 1,226 | (15,403) | (1,017) |
| Grants, Aids and Subsidies | (10,780) | (1,188) | (16,273) | (28,241) | — |
| Other Nonoperating Expenses | — | — | (14,706) | (14,706) | (693) |
| Gain (Loss) on Disposal of Capital Assets | 849 | — | 63 | 912 | 927 |
| Total Nonoperating Revenues (Expenses) | \$ 511,674 | \$ 5,986,604 | \$ (28,967) | \$ 6,469,311 | \$ 1,397 |
| Income (Loss) Before Transfers and Contributions | \$ (786,216) | \$ (1,234,611) | \$ 204,861 | \$ (1,815,966) | \$ 87,822 |
| Transfers-In | 796,756 | — | 14,464 | 811,220 | — |
| Transfers-Out | — | (1,565) | (189,399) | (190,964) | (32,679) |
| Change in Net Position | \$ 10,540 | \$ (1,236,176) | \$ 29,926 | \$ (1,195,710) | \$ 55,143 |
| Net Position, Beginning, as Reported | \$ 1,641,983 | \$ 460,997 | \$ 248,377 | \$ 2,351,357 | \$ 344,111 |
| Net Position, Ending | \$ 1,652,523 | \$ (775,179) | \$ 278,303 | \$ 1,155,647 | \$ 399,254 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | |
|---|-------------------------------|------------------------|---------------------------|-----------------------|------------------------|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| Cash Flows from Operating Activities: | | | | | |
| Receipts from Customers | \$ 754,052 | \$ 743,856 | \$ 1,415,144 | \$ 2,913,052 | \$ 1,447,642 |
| Receipts from Other Revenues | — | — | 38,093 | 38,093 | 12,166 |
| Receipts from Repayment of Program Loans | 3,730 | — | — | 3,730 | — |
| Financial Aid Disbursements | (106,538) | — | — | (106,538) | — |
| Payments to Claimants | — | (8,151,104) | (817,251) | (8,968,355) | (939,379) |
| Payments to Suppliers | (395,198) | — | (141,883) | (537,081) | (231,385) |
| Payments to Employees | (1,395,701) | — | (177,800) | (1,573,501) | (127,392) |
| Payments to Others | — | — | (68,446) | (68,446) | (693) |
| Net Cash Flows from Operating Activities | \$ (1,139,655) | \$ (7,407,248) | \$ 247,857 | \$ (8,299,046) | \$ 160,959 |
| Cash Flows from Noncapital Financing Activities: | | | | | |
| Grant Receipts | \$ 491,852 | \$ 5,239,009 | \$ — | \$ 5,730,861 | \$ — |
| Grant Disbursements | (14,201) | (1,230) | (16,273) | (31,704) | — |
| Transfers-In | 767,931 | — | 14,464 | 782,395 | — |
| Transfers-Out | — | (3,932) | (192,514) | (196,446) | (32,679) |
| Proceeds from Loans | — | 2,136,029 | — | 2,136,029 | — |
| Repayment of Loan Principal | — | (997,848) | — | (997,848) | — |
| Net Cash Flows from Noncapital Financing Activities | \$ 1,245,582 | \$ 6,372,028 | \$ (194,323) | \$ 7,423,287 | \$ (32,679) |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Transfers-In | \$ 26,872 | \$ — | \$ — | \$ 26,872 | \$ — |
| Investment in Capital Assets | (76,043) | — | (4,361) | (80,404) | (18,721) |
| Proceeds from Disposal of Capital Assets | — | — | 89 | 89 | 4,535 |
| Proceeds from Capital Bonds | 8,120 | — | — | 8,120 | — |
| Proceeds from Loans | — | — | — | — | 17,911 |
| Capital Lease Payments | (2,134) | — | — | (2,134) | — |
| Repayment of Loan Principal | (960) | — | — | (960) | (21,003) |
| Repayment of Bond Principal | (41,260) | — | (10,145) | (51,405) | — |
| Interest Paid | (22,104) | — | (508) | (22,612) | (974) |
| Net Cash Flows from Capital and Related Financing Activities | \$ (107,509) | \$ — | \$ (14,925) | \$ (122,434) | \$ (18,252) |
| Cash Flows from Investing Activities: | | | | | |
| Proceeds from Sales and Maturities of Investments | \$ 556 | \$ — | \$ — | \$ 556 | \$ — |
| Purchase of Investments | (2,384) | — | — | (2,384) | — |
| Investment Earnings | 3,758 | 132 | 717 | 4,607 | 2,180 |
| Net Cash Flows from Investing Activities | \$ 1,930 | \$ 132 | \$ 717 | \$ 2,779 | \$ 2,180 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 348 | \$ (1,035,088) | \$ 39,326 | \$ (995,414) | \$ 112,208 |
| Cash and Cash Equivalents, Beginning, as Reported | \$ 1,118,677 | \$ 1,517,351 | \$ 300,364 | \$ 2,936,392 | \$ 509,856 |
| Cash and Cash Equivalents, Ending | \$ 1,119,025 | \$ 482,263 | \$ 339,690 | \$ 1,940,978 | \$ 622,064 |

STATE OF MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)

| | ENTERPRISE FUNDS | | | | |
|---|-------------------------------|------------------------|---------------------------|-----------------------|------------------------|
| | STATE COLLEGES & UNIVERSITIES | UNEMPLOYMENT INSURANCE | NONMAJOR ENTERPRISE FUNDS | TOTAL | INTERNAL SERVICE FUNDS |
| Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities: | | | | | |
| Operating Income (Loss) | \$ (1,297,890) | \$ (7,221,215) | \$ 233,828 | \$ (8,285,277) | \$ 86,425 |
| Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities: | | | | | |
| Depreciation and Amortization | \$ 137,279 | \$ — | \$ 15,685 | \$ 152,964 | \$ 21,110 |
| Miscellaneous Nonoperating Revenues | — | — | 6 | 6 | — |
| Miscellaneous Nonoperating Expenses | — | — | (14,706) | (14,706) | (693) |
| Loan Principal Repayments | 3,730 | — | — | 3,730 | — |
| Provision for Loan Defaults | (2,299) | — | — | (2,299) | — |
| Loans Forgiven | 3,258 | — | — | 3,258 | — |
| Change in Assets, Liabilities, Deferred Outflows and Inflows: | | | | | |
| Accounts Receivable | (1,952) | 104,048 | (5,112) | 96,984 | (263) |
| Inventories | 1,039 | — | 92 | 1,131 | 53 |
| Other Assets | — | — | (127) | (127) | 3,075 |
| Deferred Outflows | 217,680 | — | 42,192 | 259,872 | 42,614 |
| Accounts Payable | (1,745) | (291,102) | 7,906 | (284,941) | 20,814 |
| Salaries Payable | (437) | — | — | (437) | — |
| Claims Payable | — | — | 6,275 | 6,275 | 10,362 |
| Compensated Absences Payable | 2,543 | — | 314 | 2,857 | 1,367 |
| Unearned Revenues | 4,806 | 1,012 | (1,197) | 4,621 | (3,279) |
| Other Postemployment Benefits | (919) | — | 6,183 | 5,264 | 514 |
| Net Pension Liability | 18,857 | — | (1,624) | 17,233 | 4,568 |
| Other Liabilities | (1,175) | 9 | — | (1,166) | — |
| Deferred Inflows | (222,430) | — | (41,858) | (264,288) | (25,708) |
| Net Reconciling Items to be Added to (Deducted from) Operating Income | \$ 158,235 | \$ (186,033) | \$ 14,029 | \$ (13,769) | \$ 74,534 |
| Net Cash Flows from Operating Activities | \$ (1,139,655) | \$ (7,407,248) | \$ 247,857 | \$ (8,299,046) | \$ 160,959 |
| Noncash Investing, Capital and Financing Activities: | | | | | |
| Capital Assets Acquired through Lease | \$ 1,147 | \$ — | \$ — | \$ 1,147 | \$ — |
| Capital Assets Transferred Out | \$ — | \$ — | \$ 567 | \$ 567 | \$ — |
| Bond Premium Amortization | \$ 4,257 | \$ — | \$ 1,691 | \$ 5,948 | \$ — |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021
(IN THOUSANDS)**

| | PENSION TRUST | INVESTMENT TRUST | CUSTODIAL FUND |
|--|----------------|------------------|----------------|
| ASSETS | | | |
| Cash and Cash Equivalent Investments | \$ 52,236 | \$ — | \$ 340,143 |
| Investment Pools, at fair value: | | | |
| Cash Equivalent Investments | \$ 5,549,780 | \$ 46,298 | \$ — |
| Investments | 99,433,711 | 1,420,541 | — |
| Accrued Interest and Dividends | 154,643 | 2,146 | — |
| Securities Trade Receivable (Payable) | (711,469) | (11,843) | — |
| Total Investment Pool Participation | \$ 104,426,665 | \$ 1,457,142 | \$ — |
| Receivables: | | | |
| Accounts Receivable | \$ — | \$ — | \$ 54,677 |
| Interfund Receivables | 12,746 | — | — |
| Other Receivables | 113,939 | — | — |
| Total Receivables | \$ 126,685 | \$ — | \$ 54,677 |
| Securities Lending Collateral | \$ 5,707,863 | \$ — | \$ — |
| Depreciable Capital Assets (Net) | 33,374 | — | — |
| Nondepreciable Capital Assets | 611 | — | — |
| Total Assets | \$ 110,347,434 | \$ 1,457,142 | \$ 394,820 |
| LIABILITIES | | | |
| Accounts Payable | \$ 32,887 | \$ — | \$ 272,362 |
| Interfund Payables | 13,221 | — | — |
| Accrued Expense | 33 | — | — |
| Revenue Bonds Payable | 6,961 | — | — |
| Bond Interest | 3 | — | — |
| Compensated Absences Payable | 3,623 | — | — |
| Securities Lending Liabilities | 5,707,863 | — | — |
| Other Liabilities | 2,193 | — | — |
| Total Liabilities | \$ 5,766,784 | \$ — | \$ 272,362 |
| NET POSITION | | | |
| Net Position Restricted for Pensions and Pooled Investments, Individuals, Organizations, and Other Governments | \$ 104,580,650 | \$ 1,457,142 | \$ 122,458 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**FIDUCIARY FUNDS
STATEMENT OF CHANGES
IN NET POSITION
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)**

| | PENSION TRUST | INVESTMENT TRUST | CUSTODIAL FUND |
|--|---------------|------------------|----------------|
| Additions: | | | |
| Contributions: | | | |
| Employer | \$ 1,542,067 | \$ — | \$ — |
| Member | 1,804,557 | — | — |
| Contributions From Other Sources | 12,829 | — | — |
| Participating Plans | — | 15,336 | — |
| Total Contributions | \$ 3,359,453 | \$ 15,336 | \$ — |
| Net Investment Income (Loss): | | | |
| Investment Income (Loss) | \$ 24,180,361 | \$ 372,628 | \$ — |
| Less: Investment Expenses | (88,952) | (796) | — |
| Net Investment Income (Loss) | \$ 24,091,409 | \$ 371,832 | \$ — |
| Securities Lending Revenues (Expenses): | | | |
| Securities Lending Income | \$ 29,848 | \$ — | \$ — |
| Securities Lending Rebates and Fees | (10,812) | — | — |
| Net Securities Lending Revenue | \$ 19,036 | \$ — | \$ — |
| Total Investment Income (Loss) | \$ 24,110,445 | \$ 371,832 | \$ — |
| Employee Insurance Trust | \$ — | \$ — | \$ 38,141 |
| Tax Collections for Other Governments | — | — | 655,375 |
| Legal Settlements for External Parties | — | — | 7,218 |
| Courts Interest Held for Other Governments and Individuals | — | — | 18,530 |
| Federal Revenue | — | — | 188,466 |
| Beneficiary Deposits - Child Support | — | — | 547,999 |
| Beneficiary Deposits - Regional Treatment Centers | — | — | 5,853 |
| Beneficiary Deposits - Corrections | — | — | 34,421 |
| Beneficiary Deposits - Veterans Homes | — | — | 1,871 |
| Miscellaneous | — | — | 7,786 |
| Transfers-In | 115,510 | — | — |
| Other Additions | 15,727 | — | — |
| Total Additions | \$ 27,601,135 | \$ 387,168 | \$ 1,505,660 |

STATE OF MINNESOTA

**FIDUCIARY FUNDS
STATEMENT OF CHANGES
IN NET POSITION
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)**

| | PENSION TRUST | INVESTMENT TRUST | CUSTODIAL FUND |
|--|----------------|------------------|----------------|
| Deductions: | | | |
| Benefits | \$ 5,604,645 | \$ — | \$ — |
| Refunds and Withdrawals | 479,832 | 67,525 | — |
| Administrative Expenses | 68,514 | 85 | — |
| Employee Insurance Trust | — | — | 37,862 |
| Tax Payments to Other Governments | — | — | 655,311 |
| Legal Settlements Paid to External Parties | — | — | 1,881 |
| Court Payments to Other Governments and Individuals | — | — | 33,987 |
| Federal Revenue Pass through | — | — | 108,241 |
| Beneficiary Payments - Child Support | — | — | 548,002 |
| Beneficiary Payments - Regional Treatment Centers | — | — | 5,113 |
| Beneficiary Payments - Corrections | — | — | 31,229 |
| Beneficiary Payments - Veterans Homes | — | — | 1,518 |
| Miscellaneous | — | — | 1,570 |
| Transfers-Out | 30,722 | — | — |
| Total Deductions | \$ 6,183,713 | \$ 67,610 | \$ 1,424,714 |
| Net Increase (Decrease) | \$ 21,417,422 | \$ 319,558 | \$ 80,946 |
| Net Position Restricted for Pensions and Pooled Investments, Beginning, as Reported | | | |
| | \$ 83,161,547 | \$ 1,137,577 | \$ — |
| Change in Accounting Principle | — | — | 41,512 |
| Change in Reporting Entity | 1,681 | 7 | — |
| Net Position Restricted for Pensions and Pooled Investments, Beginning, as Restated | | | |
| | \$ 83,163,228 | \$ 1,137,584 | \$ 41,512 |
| Net Position Restricted for Pensions and Pooled Investments, Ending | | | |
| | \$ 104,580,650 | \$ 1,457,142 | \$ 122,458 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**COMPONENT UNIT FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2020 and JUNE 30, 2021
(IN THOUSANDS)**

| | HOUSING FINANCE AGENCY | METROPOLITAN COUNCIL | UNIVERSITY OF MINNESOTA | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|---|------------------------|----------------------|-------------------------|--------------------------|-----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 109,720 | \$ 67,607 | \$ 804,670 | \$ 685,603 | \$ 1,667,600 |
| Investments | — | 221,915 | 831,875 | 297,596 | 1,351,386 |
| Accounts Receivable | 489 | 21,154 | 482,013 | 58,484 | 562,140 |
| Due from Primary Government | 75 | 94,056 | 37,546 | 160,997 | 292,674 |
| Accrued Investment/Interest Income | 13,153 | 1,474 | 777 | 13,295 | 28,699 |
| Federal Aid Receivable | 4,127 | 176,360 | — | 119 | 180,606 |
| Inventories | — | 43,312 | 19,646 | 31 | 62,989 |
| Loans and Notes Receivable | 41,976 | — | 9,464 | 251,881 | 303,321 |
| Other Assets | 617 | 1,676 | 41,426 | 4,223 | 47,942 |
| Total Current Assets | \$ 170,157 | \$ 627,554 | \$ 2,227,417 | \$ 1,472,229 | \$ 4,497,357 |
| Noncurrent Assets: | | | | | |
| Cash and Cash Equivalents-Restricted | \$ 1,207,712 | \$ 525,350 | \$ 24,562 | \$ 375,106 | \$ 2,132,730 |
| Investments-Restricted | 3,003,385 | — | 162,253 | 23,230 | 3,188,868 |
| Accounts Receivable-Restricted | — | 101,316 | — | — | 101,316 |
| Due from Primary Government-Restricted | — | 2,857 | — | — | 2,857 |
| Due from Primary Government | — | — | — | 2,231 | 2,231 |
| Investments | — | 743,591 | 6,250,158 | — | 6,993,749 |
| Accounts Receivable | — | — | 133,663 | 359,426 | 493,089 |
| Loans and Notes Receivable | 887,136 | 44,700 | 57,727 | 2,086,984 | 3,076,547 |
| Depreciable Capital Assets (Net) | 2,132 | 3,416,492 | 2,739,825 | 884,095 | 7,042,544 |
| Nondepreciable Capital Assets | — | 1,830,958 | 551,153 | 35,949 | 2,418,060 |
| Other Assets | 630 | — | 16,360 | 1,323 | 18,313 |
| Total Noncurrent Assets | \$ 5,100,995 | \$ 6,665,264 | \$ 9,935,701 | \$ 3,768,344 | \$ 25,470,304 |
| Total Assets | \$ 5,271,152 | \$ 7,292,818 | \$ 12,163,118 | \$ 5,240,573 | \$ 29,967,661 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Accumulated Decrease in Fair Value of Hedging Derivative Instruments | | | | | |
| | \$ 13,932 | \$ — | \$ — | \$ — | \$ 13,932 |
| Bond Refunding | 6 | — | 505 | 4,959 | 5,470 |
| Deferred Pension Outflows | 2,132 | 26,240 | 51,635 | 808 | 80,815 |
| Deferred Other Postemployment Benefits Outflows | 302 | 62,482 | 10,724 | 3 | 73,511 |
| Deferred Derivative Instrument Outflows | — | 1,495 | — | — | 1,495 |
| Total Deferred Outflows of Resources | \$ 16,372 | \$ 90,217 | \$ 62,864 | \$ 5,770 | \$ 175,223 |

STATE OF MINNESOTA
COMPONENT UNIT FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2020 and JUNE 30, 2021
(IN THOUSANDS)

| | HOUSING FINANCE AGENCY | METROPOLITAN COUNCIL | UNIVERSITY OF MINNESOTA | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|--|------------------------------|-------------------------|-------------------------------|--------------------------------|-----------------------------|
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | \$ 30,115 | \$ 92,163 | \$ 327,735 | \$ 26,200 | \$ 476,213 |
| Due to Primary Government | — | — | 1,105 | 51,217 | 52,322 |
| Unearned Revenue | — | 25,284 | 86,431 | 43,060 | 154,775 |
| Accrued Interest Payable | 26,198 | 3,560 | 16,026 | 9,254 | 55,038 |
| Bonds and Notes Payable | 318,634 | 304,273 | 239,970 | 98,188 | 961,065 |
| Capital Leases Payable | — | 930 | 4,562 | — | 5,492 |
| Claims Payable | — | 11,234 | 39,708 | 220,685 | 271,627 |
| Compensated Absences Payable | 378 | 30,947 | 242,210 | 186 | 273,721 |
| Other Liabilities | — | — | 3,856 | 313 | 4,169 |
| Total Current Liabilities | \$ 375,325 | \$ 468,391 | \$ 961,603 | \$ 449,103 | \$ 2,254,422 |
| Noncurrent Liabilities: | | | | | |
| Accounts Payable-Restricted | \$ — | \$ 122,610 | \$ 41,552 | \$ — | \$ 164,162 |
| Unearned Revenue-Restricted | — | 185,152 | — | — | 185,152 |
| Accrued Interest Payable-Restricted | — | 13,390 | — | — | 13,390 |
| Accounts Payable | 66,251 | — | — | — | 66,251 |
| Due to Primary Government | — | — | 1,220 | 95,274 | 96,494 |
| Unearned Revenue | — | — | 7,346 | 5,230 | 12,576 |
| Interest Rate Swap Agreements | 13,932 | — | — | — | 13,932 |
| Bonds and Notes Payable | 3,322,509 | 1,492,738 | 1,301,336 | 956,551 | 7,073,134 |
| Capital Leases Payable | — | 2,705 | 21,755 | — | 24,460 |
| Claims Payable | — | 18,121 | 13,529 | 556,425 | 588,075 |
| Compensated Absences Payable | 3,051 | 8,458 | 27,742 | 1,177 | 40,428 |
| Other Postemployment Benefits | 1,793 | 361,459 | 54,111 | 19 | 417,382 |
| Net Pension Liability | 8,396 | 140,749 | 193,914 | 2,814 | 345,873 |
| Funds Held in Trust | 173,668 | — | 389,077 | 128 | 562,873 |
| Other Liabilities | — | — | 50,344 | 250 | 50,594 |
| Total Noncurrent Liabilities | \$ 3,589,600 | \$ 2,345,382 | \$ 2,101,926 | \$ 1,617,868 | \$ 9,654,776 |
| Total Liabilities | \$ 3,964,925 | \$ 2,813,773 | \$ 3,063,529 | \$ 2,066,971 | \$ 11,909,198 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Bond Refunding | \$ — | \$ — | \$ 5,263 | \$ — | \$ 5,263 |
| Deferred Revenue | 20,226 | — | — | 16,628 | 36,854 |
| Deferred Pension Inflows | 19,039 | 291,652 | 460,940 | 6,631 | 778,262 |
| Deferred Other Postemployment Benefits Inflows | 290 | 12,795 | 258 | 4 | 13,347 |
| Total Deferred Inflows of Resources | \$ 39,555 | \$ 304,447 | \$ 466,461 | \$ 23,263 | \$ 833,726 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | \$ 2,132 | \$ 3,623,594 | \$ 1,735,357 | \$ 912,532 | \$ 6,273,615 |
| Restricted-Expendable | 1,561,672 | 643,247 | 3,954,832 | 2,146,411 | 8,306,162 |
| Restricted-Nonexpendable | — | — | 1,707,092 | — | 1,707,092 |
| Unrestricted | (280,760) | (2,026) | 1,298,711 | 97,166 | 1,113,091 |
| Total Net Position | \$ 1,283,044 | \$ 4,264,815 | \$ 8,695,992 | \$ 3,156,109 | \$ 17,399,960 |

The notes are an integral part of the financial statements.

STATE OF MINNESOTA
COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2020 and JUNE 30, 2021
(IN THOUSANDS)

| | HOUSING FINANCE AGENCY | METROPOLITAN COUNCIL | UNIVERSITY OF MINNESOTA | NONMAJOR COMPONENT UNITS | TOTAL COMPONENT UNITS |
|--------------------------------------|------------------------------|-------------------------|-------------------------------|--------------------------------|-----------------------------|
| Net Expenses: | | | | | |
| Total Expenses | \$ 663,798 | \$ 1,218,241 | \$ 4,124,286 | \$ 667,744 | \$ 6,674,069 |
| Program Revenues: | | | | | |
| Charges for Services | \$ 118,063 | \$ 350,568 | \$ 1,265,801 | \$ 123,151 | \$ 1,857,583 |
| Operating Grants and Contributions | 743,989 | 769,592 | 1,946,761 | 201,357 | 3,661,699 |
| Capital Grants and Contributions | — | 552,055 | 75,659 | 4,572 | 632,286 |
| Net (Expense) Revenue | \$ 198,254 | \$ 453,974 | \$ (836,065) | \$ (338,664) | \$ (522,501) |
| General Revenues: | | | | | |
| Taxes | \$ — | \$ 88,027 | \$ — | \$ — | \$ 88,027 |
| Investment Income (Loss) | — | 51,178 | 1,706,851 | 14,299 | 1,772,328 |
| Other Revenues | 763 | 639 | 255,175 | 2,010 | 258,587 |
| Total General Revenues before Grants | \$ 763 | \$ 139,844 | \$ 1,962,026 | \$ 16,309 | \$ 2,118,942 |
| State Grants Not Restricted | 57,445 | — | 696,935 | 336,701 | 1,091,081 |
| Total General Revenues | \$ 58,208 | \$ 139,844 | \$ 2,658,961 | \$ 353,010 | \$ 3,210,023 |
| Change in Net Position | \$ 256,462 | \$ 593,818 | \$ 1,822,896 | \$ 14,346 | \$ 2,687,522 |
| Net Position, Beginning, as Reported | \$ 1,026,582 | \$ 3,670,997 | \$ 6,867,503 | \$ 3,141,763 | \$ 14,706,845 |
| Change in Accounting Principle | — | — | 5,593 | — | 5,593 |
| Net Position, Beginning, as Restated | \$ 1,026,582 | \$ 3,670,997 | \$ 6,873,096 | \$ 3,141,763 | \$ 14,712,438 |
| Net Position, Ending | \$ 1,283,044 | \$ 4,264,815 | \$ 8,695,992 | \$ 3,156,109 | \$ 17,399,960 |

The notes are an integral part of the financial statements.

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These notes provide disclosures relevant to the basic financial statements on the preceding pages.

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying financial statements of the state of Minnesota (the state) have been prepared to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented the following GASB statements for the fiscal year ended June 30, 2021:

- GASB Statement No. 84 "Fiduciary Activities" was issued January 2017. This statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the activity and (2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position. See Note 21 - Prior Period Adjustment, Change in Accounting Principle, and Change in Reporting Entity for further discussion on the impacts of implementing this statement.
- GASB Statement No. 90 "Major Equity Interests" was issued August 2018. This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This statement has no material impact on the state.
- GASB Statement No. 93 "Replacement of Interbank Offered Rates" was issued March 2020. This statement addresses the accounting and reporting implications that result from the replacement of an Interbank Offering Rate (IBOR). This statement has no material impact on the state.
- Implementations Guide No. 2019-1 "Implementation Guidance Update - 2019". This guide provides guidance to clarify, explain, or elaborate on GASB statements previously implemented. This guide has no material impact on the state.
- Implementation Guide No. 2019-2 "Fiduciary Activities". This guide provides guidance to clarify, explain, or elaborate on the requirements of GASB Statement No. 84, Fiduciary Activities. See Note 21 - Prior Period Adjustment, Change in Accounting Principle, and Change in Reporting Entity for further discussion on the impacts of implementing this statement.

Financial Reporting Entity of the State of Minnesota

This report includes the state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota Legislature or its constitutional officers. The state of Minnesota, as a primary government, consists of all organizations that make up its legal entity. This report also includes other legally separate organizations as component units. GASB has established criteria for determining which organizations should be included as component units. Legally separate organizations are reported as component units if either the state is financially accountable for the organization or the nature and significance of the organization's relationship with the state are such that exclusion would cause the state's financial statements to be misleading. These criteria include the state's ability to appoint a voting

majority of an organization's governing body, and either the state's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state.

Component units may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state's operations. All of the state's component units are discretely presented component units that are shown separately from the primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the state's discretely presented component units. Discretely presented component units are also identified separately in the note disclosures because of their separate legal status. All discretely presented component units are presented in this report on the economic resource measurement focus and the accrual basis of accounting.

Discretely Presented Component Units

The following provides a description of the state's discretely presented component units:

- Housing Finance Agency (HFA) – HFA provides money for loans and technical assistance for constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. The state has the ability to significantly influence the programs, projects, and levels of services provided by HFA. HFA issues bonds in its own name.
- Metropolitan Council (MC) – MC is responsible for coordinating the planning and development of the seven-county metropolitan area. MC operates the public transit system and the regional sewage collection and treatment system. The governor appoints the council members, including the chair, subject to the advice and consent of the Minnesota senate. The state has the ability to significantly influence the projects and levels of services provided by MC. The regional administrator, appointed by the council, is responsible for the administration of council activities. The fiscal year for MC ends December 31.
- University of Minnesota (U of M) – U of M was established permanently by the Minnesota constitution. The state appropriates a large percentage of U of M's operating budget. The Minnesota Legislature elects the twelve-member board of regents, which governs U of M, but the state does not have direct authority over the management of the university. The state has issued debt for U of M capital projects. U of M includes several nonprofit organizations as component units.
- Agricultural and Economic Development Board (AEDB) – AEDB administers programs for agricultural and economic development. AEDB has seven members, four of whom are commissioners of state departments. The state has the ability to significantly influence the programs and projects of AEDB. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.
- Minnesota Comprehensive Health Association (MCHA) – MCHA administers the Premium Security Plan (PSP), a risk mitigation program designed to keep premiums affordable to individual purchasers within the state of Minnesota. The purpose is to promote the public health and welfare of the people of Minnesota by making available certain health insurance plans to residents of the state who are not otherwise able to obtain such coverage in the marketplace. The board has 13 members, seven of whom are selected by commissioners of state departments. The state has appropriated funding for the program and has the ability to approve or reject the parameters for making payments to health carriers. The fiscal year for MCHA ends December 31.

- Minnesota Sports Facilities Authority (MSFA) – MSFA's mission is to provide for the construction, financing, and long-term use of a multi-purpose stadium and related stadium infrastructure as a venue for professional football and a broad range of other civic, community, athletic, educational, cultural, and commercial activities. The board of the authority has five members, including a chair and two members whom are appointed by the governor. The state provides administrative funding to MSFA.
- National Sports Center Foundation (NSCF) – The Minnesota Amateur Sports Commission (MASC), consisting of 14 members, 9 of whom are appointed by the state, contracts with NSCF to operate various sports facilities, including the National Sports Center. The facilities are used primarily for holding youth-oriented athletic and other non-athletic functions and events. Although the facilities belong to the state, NSCF is responsible for the operating costs and certain improvements to the facilities. The MASC appoints all foundation board members, approves the foundation's spending budget, approves all rates and fees, and owns any reserve funds. The fiscal year for NSCF ends December 31.
- Office of Higher Education (OHE) – OHE makes and guarantees loans to qualified post-secondary students. To fund the loan program, revenue bonds are issued in OHE's name with limitations set by the Minnesota Legislature. OHE also administers the state grant program. The state provides administrative funding for these programs. The governor appoints the OHE director with the advice and consent of the senate.
- Public Facilities Authority (PFA) – PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. The state provides funding and administrative services for PFA. PFA is composed of commissioners from state departments and agencies. The commissioners direct the operations of the authority and determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.
- Rural Finance Authority (RFA) – RFA administers a number of state agriculture programs, including the homestead redemption program, loan restructuring program, and agricultural improvement program. The board of the authority consists of state department heads and members appointed by the governor. RFA is under the administrative control of the commissioner of the Department of Agriculture, who is a member of the board. The state has issued general obligation bond debt for RFA programs.
- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by the commissioner of the Department of Commerce. The commissioner enters into administrative contracts, sets premium rates, and makes assessments. The commissioner has the authority to assess all licensed workers' compensation insurance companies doing business in Minnesota an amount sufficient to fully fund the obligations of the plan to the extent that the assets of the plan are inadequate to meet its obligations. The fiscal year for WCARP ends December 31.

A discretely presented component unit is classified as major or non-major, depending on its significance relative to other component units and the nature and significance of the component unit's relationship to the primary government. HFA, MC, and U of M are classified as major component units for this report.

Additional information is available from the component unit's separately-issued financial statements. Because AEDB and RFA do not issue separately audited financial statements, the combining financial statements include a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows for each of these component units.

Complete financial statements of the discretely presented component units may be obtained from their respective administrative offices as follows:

- Housing Finance Agency, 400 Wabasha Street, Suite 400, St. Paul, Minnesota 55102, www.mnhousing.gov
- Metropolitan Council, 390 Robert Street North, St. Paul, Minnesota 55101-1805, www.metrocouncil.org
- University of Minnesota, Office of the Controller, 205 West Bank Office Building, 1300 South Second Street, Minneapolis, Minnesota 55454-1075, www.twin-cities.umn.edu
- Minnesota Comprehensive Health Assoc., 1650 West End Boulevard, Suite 100, St. Louis Park, Minnesota 55416, www.mchamn.com
- Minnesota Sports Facilities Authority, 1005 4th Street South, Minneapolis, Minnesota 55415-1752, www.msfa.com
- National Sports Center Foundation, National Sports Center, 1700 105th Avenue Northeast, Blaine, Minnesota 55449-4500, www.nscsports.org
- Office of Higher Education, 1450 Energy Park Drive, Suite 350, St. Paul, Minnesota 55108-5227, www.ohc.state.mn.us
- Public Facilities Authority, Department of Employment & Economic Development, 1st National Bank Building, 332 Minnesota Street, Suite W820, St. Paul, Minnesota 55101-1378, www.mn.gov/deed/pfa
- Workers' Compensation Assigned Risk Plan, Affinity Insurance Services, Inc., 8200 Tower, Suite 1100, 5600 West 83rd Street, Minneapolis, Minnesota 55437-1062, www.mwcarp.org

Related Entities – These are entities for which the state is accountable because the state appoints a voting majority of the board but does not have financial accountability or the ability to impose the state's will on the entity. The following are related entities, but are not included in the reporting entity:

- Higher Education Facilities Authority (HEFA) – The governor appoints a majority of the board. HEFA can issue revenue bonds and notes in its name. The state has no statutory authority to affect the operations of HEFA.
- Joint Underwriting Association – The state commissioner of the Department of Commerce appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments. Membership in the association is a condition for doing business in the state.
- Metropolitan Airports Commission – The governor appoints a majority of the voting commissioners. The state has no statutory authority to directly affect the commission's activities and operations. Holders of the commission's debt instruments have no recourse against the state.
- Workers' Compensation Reinsurance Association – The state commissioner of the Department of Labor and Industry appoints, or approves the appointment of, a majority of the board. The association supports itself solely from revenues derived from premiums charged to association members. The state has no authority to affect the operations of the association.

The following organizations, which are included in the primary government, prepare and publish separate financial reports, which may contain differences in presentation resulting from differing reporting emphasis. These financial reports may be obtained directly from each organization.

- Minnesota State Lottery, 2645 Long Lake Road, Roseville, Minnesota 55113-1117, www.mnlottery.com

- Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000, www.msrs.state.mn.us
- State Board of Investment, 60 Empire Drive, Suite 355, St. Paul, Minnesota 55103-3555, www.msbi.us
- Teachers Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-1889, www.minnesotatra.org
- Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088, www.mnpera.org
- Minnesota State Colleges and Universities, Financial Reporting Unit, 500 Wells Fargo Place, 30 East 7th Street, St. Paul, Minnesota 55101-7804, www.minnstate.edu

The financial reports, available from the State Board of Investment, report on investments in investment pools, which include the majority of the state's Fiduciary Funds.

Financial Reporting Structure of the State of Minnesota

The basic financial statements include government-wide and fund financial statements. The government-wide financial statements report on the state as a whole, while the fund financial statements emphasize major individual funds and fund types. Both types of statements categorize activities as either governmental or business-type. Governmental expenditures are classified by function. Each of the state's departments and agencies is included in a functional classification based on its primary mission and objectives.

Government-wide Financial Statements

The Government-wide Financial Statements (Statement of Net Position and Statement of Activities) display information about the state as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state and its discretely presented component units. Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once in the function for which the expenses were made. General government expenses that benefit state agencies have not been allocated as indirect expenses to the various functions of the state, but are reported under the general government function.

The focus of the Government-wide Financial Statements is on financial information of the state as an entity and the change in the overall financial position of the state as a result of the activities of the fiscal year. Government-wide Financial Statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resource measurement focus, all economic resources and obligations of the reporting government, both current and long-term, are reported in the Government-wide Financial Statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Amounts paid to acquire capital assets are capitalized as assets in the Government-wide Financial Statements. These amounts are reported as expenditures in the Governmental Fund Financial Statements. Long-term debt is recorded as a liability in the Government-wide Financial Statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liabilities rather than as expenditures.

In the government-wide statement of net position, both the governmental and business-type activities are presented on a consolidated basis by column. The statement includes long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reports how much of the cost of each functional category (public safety and corrections, transportation, etc.) is supported by general government revenues (sales taxes, income taxes, etc.). The statement of activities reduces gross expenses, including depreciation, by related program revenues, and by operating and capital grants and contributions.

Program revenues must be directly associated with, or derived directly from, the function or a business-type activity. Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. Program revenues are applied against program expenses in the statement of activities to report the net cost of each program.

General revenues normally cover the net costs (program expenses less program revenues) of all activities. Taxes represent the majority of general revenues. Internally dedicated resources are reported as general revenues, rather than program revenues.

Fund Financial Statements

Fund Financial Statements report on the financial operations and position of governmental, proprietary, and fiduciary funds even though fiduciary funds are excluded from the Government-wide Financial Statements. The emphasis in Fund Financial Statements is on the major funds in the governmental or enterprise categories. All remaining governmental, proprietary, and fiduciary funds are aggregated and reported as nonmajor funds.

Governmental funds, including the general, special revenue, capital projects, debt service, and permanent funds, are presented on a current financial resource measurement focus and modified accrual basis of accounting in the Fund Financial Statements. This presentation is deemed most appropriate to demonstrate compliance with legal and bond covenant requirements, the source and use of financial resources, and how the state's actual spending conforms to the budget. Because the Governmental Fund Financial Statements are presented using a different measurement focus and basis of accounting than used in the governmental column in the Government-wide Financial Statements, reconciliations explaining the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column are included.

Proprietary funds, including the enterprise and internal service funds, are presented on the economic resource measurement focus and full accrual basis of accounting in the Fund Financial Statements. This is the same measurement focus and basis of accounting as the Government-wide Financial Statements.

The state's fiduciary funds are presented in the Fund Financial Statements by type (pension trust, investment trust, or custodial). These assets are held for the benefit of others and cannot be used for activities or obligations of the government; therefore, the funds are excluded from the Government-wide Financial Statements.

The Fund Financial Statements are presented after the Government-wide Financial Statements. These statements display information about major funds individually, and nonmajor funds in the aggregate, for governmental, enterprise, and internal service funds.

Classification of Funds

The financial position and results of state operations are organized using individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by

administrative discretion. The state uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

Governmental Fund Types – These funds account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Most state operations are accounted for in this fund category. The fund types included in this category are the General Fund plus special revenue, capital project, debt service, and permanent funds.

- The General Fund accounts for all financial resources not accounted for and reported in another fund. This fund encompasses many of the primary government's functions.
- Special revenue funds account for revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.
- Capital project funds account for financial resources that are restricted, committed, or assigned to capital expenditures, including the acquisition or construction of capital facilities and other capital assets. The state's capital expenditures are reported as capital outlay, whereas capital expenditures for other entities are reported as grant expenditures. Capital project funds exclude capital-related outflows financed by proprietary funds or for assets that will be held in trust.
- The Debt Service Fund accounts for the accumulation of resources for, and the payment of, most long-term debt principal and interest.
- Permanent Funds account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs. The state has only one permanent fund, the Permanent School Fund. Minnesota Constitution, Article XI, Section 8 allows for the distribution of net interest and dividends to school districts. The change in investment value is recorded on the face of the financial statements as "Investment/Interest Income." Amounts that can be authorized for expenditure are classified as restricted on the face of the statements.

The state has two major governmental funds. The General Fund is the principal operating fund used to account for most of the general activities of the state. The Federal Fund is the state's only major special revenue fund. It receives and disburses federal government grants, reimbursements, recoveries, and premiums.

Proprietary Fund Types – These funds focus on determining net income, changes in net position, financial position, and cash flows. Generally accepted accounting principles, similar to those used by private sector businesses, are followed in accounting for these funds. The fund types included in this category are the enterprise and internal service funds.

- Enterprise funds account for activities that charge a fee to external users for goods or services. Activities of enterprise funds are financed and operated similarly to private business enterprises where the intent of the governing body is to recover costs primarily through user fees.
- Internal service funds account for the financing of goods or services provided by one agency to primarily other state agencies on a cost reimbursement or other basis. The activities reported as internal service funds include motor pool, central services, employee insurance, technology services, plant management, and risk management.

The state has two major enterprise funds, the State Colleges and Universities Fund and the Unemployment Insurance Fund. The State Colleges and Universities Fund accounts for the activities of the Minnesota State Colleges and Universities (MnSCU) system, which is the largest higher education system in the state. The Unemployment Insurance Fund receives unemployment taxes collected from employers and pays unemployment benefits to eligible individuals.

Fiduciary Fund Types – These funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Pension trust, investment trust, and the Custodial Fund are included in this fund category.

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.
- Investment trust funds provide an investment vehicle for entities outside the state, including various public retirement plans.
- The Custodial Fund accounts for resources held in a custodial capacity for individuals, private organizations, or other governmental units. Some examples include resources held for inmates of correctional facilities or residents of veterans and group homes, sales taxes to be distributed to local governments, and child support collections to be distributed to custodial parents.

Basis of Accounting, Measurement Focus, and Fund Financial Statement Presentation

All governmental funds focus on the flow of current financial resources and use the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) to fund balances. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year-end. The state considers receivables collected after June 30, but by the close of the books in late August, to be available, and recognizes these receivables as current year revenues in governmental funds. Individual income taxes, property taxes, sales taxes, and federal grants are the major revenue sources susceptible to accrual. Receivables not collected by the close of the books in late August are reported as deferred revenue. Revenues collected prior to meeting eligibility requirements (excluding time requirements), including certain federal grant revenues, are reported as unearned revenue until the eligibility requirements are met, at which time revenue is recognized. However, revenues collected prior to meeting only time requirements are reported as deferred revenue. Expenditures and related liabilities are recognized when fund obligations are incurred, except for debt service, compensated absences, capital leases, pension and other postemployment benefits, and claims and judgments, which are recorded when due and expected to be liquidated with available financial resources. The following provides further detail on specific items regarding the modified accrual basis of accounting.

Tax Revenues – Tax revenues, excluding property taxes, are recognized in the period they become both measurable and available to finance expenditures of the current period. Measurable means that taxpayer liability is supported by sufficient documentation and can be reasonably estimated. The state's liability for anticipated refunds of such taxes is estimated and recorded as reductions in revenue in the period when the related tax is recognized.

Property Tax Revenues – Minnesota Statutes 275.025 establishes a state general tax (property tax) against commercial/industrial and seasonal residential recreational properties. Counties, as agents for the state, assess the state general tax. The tax is distributed among counties by applying a uniform rate to the appropriate tax capacities in each county. Levies are determined based on the formula contained in the laws. The state preliminarily certifies the state general levy rate to each county no later than November 1 of each year for taxes payable in the following calendar year. The state certifies the final state general tax levy on January 1 of each year to each county. Property taxes are due to counties in two installments for each year – May 15 and October 15. The counties pay the state general tax to the state on three dates – June 30, December 1, and a final date of January 25 for any adjustments or changes. Property tax is recognized, net of uncollectible amounts, in the period for which the taxes are levied and the taxes are available.

Federal Revenues – Federal revenues, earned by incurring allowable obligations, are recognized at the same time the related obligation is recognized, with one exception. Trunk Highway Fund (special revenue fund) expenditures incurred by June 30, but not converted to Federal funding by the close of the federal fiscal year, are not recognized as federal revenues until the year they are converted.

Proprietary, pension trust, custodial, and investment trust funds are accounted for using the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred. The accrual basis of accounting is also used for contributions, benefits, and refunds paid for defined benefit and defined contribution pension plans.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expense, and depreciation of capital assets. All other revenues and expenses are reported as nonoperating items.

Cash Equivalents and Investments

Cash Equivalents – Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash equivalents also include management pools and money market funds that are used essentially as demand deposit accounts.

Investments – Investments are reported at fair value, which is defined as the exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The state measures the fair value of investments based on a hierarchy of valuation inputs. Investments in derivative instruments are generally made to manage the overall risk of the individual manager's portfolios to a level satisfactory to the investment management firm and in accordance with the firm's contract with the State Board of Investment. See Note 2 – Cash, Investments, and Derivative Instruments for additional information regarding cash, investments, and derivative instruments.

Inventories

Generally, inventories for governmental funds are recorded as expenditures when purchased and are not a resource available for appropriation. The exception primarily relates to the Trunk Highway Fund (special revenue fund) and inventories are valued using weighted-average cost. Inventories maintained by the various funds are determined by annual and periodic physical counts. Inventories of proprietary funds are valued using the first-in, first-out, average cost, or specific cost methods.

Securities Lending

Securities on loan for cash collateral and the liabilities resulting from the security lending transactions are reported on the statement of net position or the balance sheet, as appropriate, for the particular fund type or level of reporting. Securities lending income and rebate and management fees are reported separately on the statement of revenues, expenditures, and changes in fund balances; the statement of revenues, expenses and changes in net position; or the statement of changes in net position, as appropriate for the particular fund type.

Restricted Net Position

Mandatory asset segregations required by bond covenants and other external restrictions are presented in enterprise funds and discretely presented component units as restricted net position. After liabilities from restricted assets are paid, any remaining restricted assets in the enterprise funds will be used for debt service.

Income Tax Credits

The Minnesota Department of Revenue processes several types of tax credits through the individual income tax system. For financial reporting purposes, income tax credits that are limited by the amount of the individual's tax liability (before considering such credits) are reported as revenue reductions. In contrast, credits for Education, Working Family, and Child and Dependent Care may be received even if they exceed the individual's tax liability. These types of credits are reported as expenditures, rather than revenue reductions, because the income tax system is, essentially, being used as a filing and payment mechanism to make grant payments to individuals.

Grant Expenditures and Liabilities Recognition

Grants are defined as nonexchange transactions because the state gives (or receives) value to another party without receiving (or giving) equal value in return. Grants are normally paid on either a reimbursement basis or an entitlement basis.

Reimbursement type grants may be awarded for specific services provided to eligible recipients or may be made for eligible types of reimbursements. Grants paid on the reimbursement basis are recognized as expenditures and liabilities in the year in which the grantee incurs the costs of providing specific services to eligible recipients or makes eligible types of expenditures.

Entitlement type grants may be based on services provided by the grantee. The intent of the grant is to help fund such services, but the grant amount is not based on the cost of providing the service(s). Expenditures and the related liabilities for these types of entitlement grants are recognized as the service is provided if the amount owed can be reasonably estimated soon after the end of the state's fiscal year. Other types of entitlement grants are not based on the services provided or action taken by the grantee. Expenditures and the related liabilities for these types of grants are recognized in the fiscal year in which the resources were appropriated.

Resources received in advance of meeting all eligibility requirements, excluding time requirements, are recorded as liabilities.

Compensated Absences

State employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. Leave balances are liquidated in cash only upon termination from state employment. The current and noncurrent compensated absences liabilities for governmental funds are reported only in the government-wide statement of net position. All other fund types report the liability for compensated absences as a liability of the specific fund.

Capital Assets

Capital assets, which include land, buildings, equipment, infrastructure, intangible assets, and art and historical treasures, are reported in the Government-wide Financial Statements and the Fund Financial Statements for proprietary and fiduciary funds. Capital assets are generally defined by the state as assets with an initial, individual cost of more than \$300,000 for buildings and depreciable infrastructure, \$30,000 for equipment, \$300,000 for non-depreciable infrastructure, \$30,000 to \$2,000,000 for internally generated computer software depending on the fund and fund type, and \$30,000 for art and historical treasures. All land and easement assets are capitalized, regardless of cost. Capital assets must also have an estimated useful life of two or more years.

Capital assets are recorded at cost or, for donated assets, at acquisition value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are

incomplete or not available; therefore, estimated historical costs have been used in these situations. Permanent School Fund (permanent fund) land is reported at estimated historical cost. The land included in the Permanent School Fund was granted to the state by the federal government in connection with the state being admitted to the United States. Tax forfeited land is not included in land inventory because the state does not take permanent title. When the land is sold, proceeds are distributed to local jurisdictions.

Capital assets are depreciated using the straight-line method generally based on the following useful lives: 20-50 years for buildings and depreciable infrastructure, 20-50 years for large improvements, 3-10 years for small improvements, 3-15 years for equipment, 3-10 years for internally generated computer software, and 20-50 years for easements. Transportation infrastructure assets using the modified approach, land, construction, and development in progress, permanent easements with indefinite useful lives, and works of art and historical treasures, such as the state capitol, are not depreciated.

GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" allows an alternative (modified) approach to the recording of infrastructure assets in which costs to maintain and preserve these assets are expensed in lieu of depreciation. The transportation infrastructure capital assets of pavement and bridges are reported using the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's pavement and bridges are included in Required Supplementary Information Modified Approach for Infrastructure. See Note 6 – Capital Assets for further information on capital assets.

Current and Noncurrent Assets

At the government-wide level, assets are classified as either current or noncurrent. Governmental activity current assets are those considered available for appropriation and expenditure and include cash, various receivables, and short-term investments. Current assets in business-type activities are those that are available or can readily be made available to meet the cost of operating or to pay current liabilities. All other assets are considered noncurrent. Assets are classified as current or noncurrent in proprietary funds, but assets are not classified at the fund level for governmental funds.

Deferred Outflows of Resources

In the Government-wide Financial Statements, the differences between the net carrying amounts and the reacquisition price on refunding bonds are reported as a deferred outflow of resources when the net carrying amount exceeds the reacquisition price. These amounts are amortized over the shorter of the remaining life of the old debt or the life of the new debt. In addition, contributions to pension plans and transactions to other postemployment benefit (OPEB) plans subsequent to the measurement date of the net pension liability and the total OPEB liability before the fiscal year end are reported as deferred outflows of resources. In addition, amounts related to the increases in the net pension liability and the total OPEB liability due to changes in assumptions, changes in the primary government's proportionate share of the net pension liability, differences between expected and actual experience, and net differences between projected and actual investment earnings for pensions are reported as deferred outflows of resources. These amounts are amortized as pension or OPEB expense as applicable over the average of the expected remaining service lives of all employees of the applicable plan, with the exception of the difference between projected and actual earnings, which is amortized over five years.

Current and Noncurrent Liabilities

In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. Long-

term liabilities are the amount of liabilities not due and payable during the fiscal year resulting from debt issuances, compensated absences, closure and post closure care for landfills, workers' compensation claims, supplementary and second injury benefit claims, pollution remediation obligations, capital leases, net pension, other postemployment benefits, and arbitrage rebate requirements. In proprietary fund statements, these liabilities are reported as liabilities of each individual fund.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts during the current period. The face amounts of the debt issued are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. In the Government-wide Financial Statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

See Note 12 – Long-Term Liabilities - Primary Government for further information.

Deferred Inflows of Resources

In the governmental funds, when an asset is recorded but the revenue is not available, the amount is reported as a deferred inflow of resources until the revenue becomes available. Amounts that are not permitted to be used until the next fiscal year remain as deferred inflows of resources in the Government-wide Financial Statements. In addition, differences between the reacquisition price and the net carrying amounts on refunding bonds when the reacquisition price exceeds the net carrying amount as well as the adjustments to the lease obligations on a capital lease restructuring due to the refunding of the debt by the lessor are reported as a deferred inflow of resources on the Government-wide Financial Statements. These amounts are amortized as interest expense over the shorter of the remaining life of the old debt or the life of the new debt. Amounts related to the decreases in the net pension liability and total other postemployment benefits (OPEB) liability due to changes in assumptions, changes in the primary government's proportionate share of the net pension liability, differences between expected and actual experience, and net differences between projected and actual investment earnings for pensions are reported as deferred inflows of resources. These amounts are amortized as pension or OPEB expense as applicable over the average of the expected remaining service lives of all employees of the applicable plan, with the exception of the difference between projected and actual earnings, which is amortized over five years.

Deferred Compensation Plan

The state offers a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The Minnesota Deferred Compensation Fund (pension trust fund) represents the value of all assets of the plan. The plan is available to all public employees in the state and is administered by the Minnesota State Retirement System. Under this plan, compensation is deferred for income tax purposes in accordance with Section 457 and is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with state statute, effective July 1, 1997, contributions are held for the exclusive benefit of the participants and their beneficiaries. These amounts are held in trust, in custodial accounts, or in qualifying contracts, as required by federal law. The State Board of Investment determines the investment options available to plan participants and oversees the activities of the investment managers. The majority of the assets of the plan are invested in various mutual funds. The state is not liable for any investment losses under the plan.

Net Position/Fund Balances and Fund Balance Classification Policies and Procedures

The difference between fund assets and liabilities is "Net Position" on the Government-wide, Proprietary, and Fiduciary fund statements and "Fund Balances" on Governmental Fund statements.

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of these assets or related debt. Significant unspent related debt proceeds are included in Restricted for Capital Projects.

Restricted Net Position represents the portion of net position that is constrained either externally by parties such as creditors or grantors, or legally through constitutional provisions or enabling legislation. Restricted net position is determined at the fund level. For a fund with more than one revenue stream, restricted net position is determined by the materiality of any restricted revenue in the fund.

In the Fund Financial Statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Minnesota Legislature by passing a bill, which is signed by the Governor, are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the Minnesota Legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts. Amounts that are constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by agency heads to whom the Governor has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The state's policy is that restricted amounts are spent first when expenditures are incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the state's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Budgeting and Budgetary Control

The state operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Appropriations in the biennial budget are usually for a single year; however, where specified, single year appropriations may be carried forward to the following year of the biennium. The governor's budget for the biennium is developed by Minnesota Management and Budget and presented to the Minnesota Legislature for approval. Specific appropriations are required for the majority of the expenditures from the General Fund. The accounts not requiring specific appropriations are considered perspective differences in the budgetary basis vs. GAAP reconciliation. Specific appropriations are also required for all special revenue funds except the Federal, Municipal State-Aid Street, County State-Aid Highway, Douglas J. Johnson Economic Protection Trust, Endowment, and Miscellaneous Special Revenue funds. Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

Budgetary control is essentially maintained at the departmental level except for certain programs where control is at the program level. In most departments, upon notifying the governor and legislative

leadership, department heads are permitted to revise budgets by transferring amounts between programs within their departments.

Unencumbered appropriation balances generally cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The accounting system maintains two separate ledgers. One is maintained primarily on a modified cash basis of accounting with certain accrual information and represents the starting point for the financial statements. The second ledger tracks information on a budgetary basis of accounting, which approximates a cash basis with the exception that, at year-end, encumbered amounts are included as expenditures of the year appropriated for budgetary reporting. The budget ledger controls expenditures by appropriation line item as established in the legally adopted appropriation bills. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from Minnesota Management and Budget.

Interfund Activity and Balances

Generally, internal service fund activity has been eliminated from the Government-wide Financial Statements. Internal service fund activity from external customers is reported under governmental activities in the Government-wide Financial Statements. Interfund receivables and payables have been eliminated from the Government-wide Statement of Net Position, except for residual amounts between governmental and business-type activities. See Note 5 – Interfund Transactions and Balances with Component Units for additional information.

Note 2 – Cash, Investments, and Derivative Instruments

Primary Government

Cash and Cash Equivalents

The majority of the primary government's cash is held in the state treasury and commingled in state bank accounts, while the majority of component unit cash is held in separate bank accounts. Cash in individual funds may be invested separately where permitted by statute; however, cash in most funds is invested as part of an investment pool. A fund's investment with the primary government's cash pools is reported as a cash equivalent. Where provided by statute, investment earnings of the primary government's pools are allocated to the individual funds. Earnings for all other participants are credited to the General Fund.

Deposits

Minnesota Statutes 9.031 requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. The statute further requires that the insurance and collateral shall be in an amount sufficient to ensure that the deposits do not exceed 90 percent of the sum of the insured amounts and the fair value of the collateral.

Investments

The State Board of Investment (SBI) manages the majority of the state's investments. All investments undertaken by SBI are governed by the standards codified in Minnesota Statutes 11A and 356A. Minnesota Statutes 11A.24 broadly restricts investments of the primary government to obligations and stocks of United States and Canadian governments, their agencies and registered corporations, other international securities, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds.

Funds not invested by SBI are primarily from the Minnesota State Colleges and Universities. Investments for these funds must also conform to the above statutes and may be further restricted by bond indentures.

Generally, when applicable, the statutes limit investments to those rated by a nationally recognized rating agency within the top four quality ratings categories. The statutes further prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.

SBI is authorized to establish, and has established, combined investment funds used by participating public retirement and nonretirement funds. Retirement and nonretirement funds should not be commingled. Each investment fund has its own characteristics, including investment objective and risk characteristics. Within statutory requirements and based on detailed analysis of each fund, SBI has established investment guidelines and benchmarks for all funds under its management. These investment guidelines and benchmarks are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards.

Investment Derivative Instruments

Minnesota Statutes 11A.24 provides that any agreement for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or securities. This provision applies to foreign currency forward contracts used to offset the currency risk of a security. All other derivative instruments are exchange traded. The purpose of the SBI derivative instrument activity is to equitize cash in the portfolio, to adjust the duration of the portfolio, or to offset current futures positions.

The cash inflows, cash outflows, and changes in fair value of investment derivative instruments are reported as investment income. The June 30, 2021 fair value of investment derivative instruments is reported as investments.

Synthetic Guaranteed Investment Contract (SGIC): SBI maintains a fully benefit-responsive SGIC for the Supplemental Investment Pool - Fixed Interest Account of the pension and investment trust funds' portfolio. The investment objective of the Fixed Interest Account is to protect investors in defined contribution and deferred compensation plans from loss of their original investment and to provide a competitive interest rate. On June 30, 2021, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of \$1,738,134,000 that is \$62,736,000 in excess of the value protected by the wrap contract. The Fixed Income Account also includes a liquid investment pool with a fair value of \$28,806,000.

The following table summarizes, by derivative instrument type, the investment derivative instrument activity, and June 30 positions for fiscal year 2021.

**Primary Government
Derivative Instrument Activity for the Year Ended June 30, 2021
By Derivative Instrument Type
(In Thousands)**

| Derivative Instrument Type | Change in Fair Value | Year End Fair Value | Year End Notional Amount |
|--------------------------------------|----------------------|---------------------|--------------------------|
| Governmental Activities: | | | |
| Futures | \$ 13,556 | \$ — | \$ 60,440 |
| Warrants / Stocks Rights | (1) | — | — |
| Total Governmental Activities | \$ 13,555 | \$ — | \$ 60,440 |
| Fiduciary Activities: | | | |
| Futures | \$ 486,826 | \$ — | \$ 184,179 |
| Futures Options Bought | (5,090) | 311 | 371 |
| Futures Options Written | 4,020 | (553) | (2,821) |
| FX Forwards | 5,010 | 9,935 | 17,087,756 |
| Warrants/Stock Rights | (917) | 397 | 454 |
| Credit Default Swaps Written | 2,088 | 3,492 | 66,292 |
| Pay Fixed Interest Rate Swaps | 13,152 | 13,561 | 280,786 |
| Receive Fixed Interest Rate Swaps | (879) | (551) | 133,610 |
| Total Return Swaps Equity | (20) | (20) | (5,022) |
| Total Fiduciary Activities | \$ 504,190 | \$ 26,572 | \$ 17,745,605 |

Credit Risk: Minnesota is exposed to credit risk through nineteen counterparties in foreign currency forward (FX Forward) contracts used to offset the currency risk of a security. The state's FX Forward counterparties combined exposes the state to a maximum loss of \$233,423,000 should these counterparties fail to perform. These counterparties have Standard & Poor's (S&P) credit ratings of BBB+ or better. The primary government, excluding pension and investment trust funds, had no exposure to counterparty risk.

Foreign Currency Risk: Currency futures and foreign stock index futures are exposed to foreign currency risk. Their currency risks are included in the Foreign Currency Risk schedule of this note.

Component Unit Derivative Instrument Activity: Derivative instrument activity of the state's component units is disclosed in the last section of this note.

Credit Risk of Debt Security Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holders of the investment. Minnesota Statutes limit investments in debt securities to the top four quality rating categories by a nationally recognized rating agency. SBI may also invest in unrated corporate obligations or in corporate obligations that are not rated among the top four quality categories provided that:

Unrated Corporate Obligations

- Aggregate value may not exceed 5 percent of the fair value of the fund for which the state board is investing.
- SBI's participation is limited to 50 percent of a single offering.
- SBI's participation is limited to 25 percent of the issuer's unrated obligations.

Corporate Stock

- Aggregate value of corporate stock may not exceed 85 percent of the fair market or book value, whichever is less, of a fund.
- Investment in corporate stock may not exceed 5 percent of the total outstanding shares of any one corporation with limited exceptions.

The state does not have a credit risk policy that is more stringent than the statutory requirements. The contracts between SBI and investment managers include guidelines or limitations regarding credit risk. The exposure to credit risk is based on the lower of S&P or Moody's Quality Ratings. For clarity of reporting, Moody's ratings are displayed in this exhibit using the comparable S&P rating.

**Primary Government
Governmental, Proprietary, and Custodial Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
As of June 30, 2021
(In Thousands)**

| Quality Rating | Fair Value |
|-----------------------|----------------------|
| AAA | \$ 2,256,072 |
| AA | 4,922,787 |
| A | 1,655,281 |
| BBB | 6,790,010 |
| BB | 125,060 |
| Unrated | 5,353,404 |
| Agencies | 3,317 |
| Total Debt Securities | <u>\$ 21,105,931</u> |

**Primary Government
Pension and Investment Trust Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
As of June 30, 2021
(In Thousands)**

| Quality Rating | Fair Value |
|-----------------------|----------------------|
| AAA | \$ 770,001 |
| AA | 12,707,137 |
| A | 619,093 |
| BBB | 2,115,392 |
| BB | 1,279,496 |
| B | 1,245,836 |
| CCC | 538,094 |
| CC | 36,650 |
| C | 1,685 |
| D | 2,401 |
| Unrated | 5,400,239 |
| Total Debt Securities | <u>\$ 24,716,024</u> |

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The state does not have a policy on interest rate risk. The contracts between SBI and investment managers contain the guidelines and limitations regarding interest rate risk. Debt securities are constrained around the quality rating, sector mix, and duration of the Barclays Capital U.S. Aggregate Bond index. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

**Primary Government
Governmental, Proprietary, and Custodial Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
As of June 30, 2021
(In Thousands)**

| Security Type | Fair Value | Weighted Average Maturity in Years |
|-------------------------------------|----------------------|---|
| Debt Securities: | | |
| Asset-Backed Securities | \$ 2,200,444 | 0.82 |
| Collateralized Mortgage Obligations | 319,822 | 6.53 |
| Corporate Debt | 3,413,374 | 2.99 |
| Mortgage-Backed Securities | 238,062 | 4.71 |
| Short-Term Investment Securities | 10,074,455 | 0.13 |
| State or Local Government Bonds | 81,646 | 10.10 |
| U.S. Agencies | 3,066,708 | 1.00 |
| U.S. Treasury | 1,064,183 | 4.15 |
| Yankee Bonds | 647,237 | 2.17 |
| Total Debt Securities | <u>\$ 21,105,931</u> | |

**Primary Government
Pension and Investment Trust Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
As of June 30, 2021
(In Thousands)**

| Security Type | Fair Value | Weighted Average Maturity in Years |
|-------------------------------------|----------------------|---|
| Debt Securities: | | |
| Asset-Backed Securities | \$ 701,097 | 4.40 |
| Bank Loans | 245,026 | 5.38 |
| Collateralized Mortgage Obligations | 783,985 | 6.38 |
| Corporate Debt | 3,533,420 | 7.82 |
| Foreign Country Bonds | 275,659 | 8.85 |
| Mortgage-backed Securities | 1,555,161 | 4.95 |
| Short-Term Investment Securities | 4,954,123 | 0.00 |
| State or Local Government Bonds | 139,201 | 8.20 |
| U.S. Agencies | 491,435 | 8.89 |
| U.S. Treasury | 10,539,944 | 13.64 |
| Yankee Bonds | 1,496,973 | 8.76 |
| Total Debt Securities | <u>\$ 24,716,024</u> | |

Fair Value Reporting

GASB Statement No. 72 "Fair Value Measurement and Application" sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs. The statement defines fair value as the exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The hierarchy has three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs for Level 2 include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs reflect SBI's assumptions about the inputs that market participants would use in pricing an asset or liability.

Investments that do not have a readily determinable fair value are measured using the net asset value (NAV) per share (or its equivalent) as a practical expedient, and not classified in the fair value hierarchy.

All non-cash investments, including derivative instrument investments that are not hedging derivative instruments, are required to be measured at fair value on a recurring basis. SBI maintains investment pools in which participants own a proportionate share of the investment pools. The fair value of the investment pools is priced daily by SBI's custodian, when a daily price is available, by using independent pricing sources.

Level 3 investments primarily consist of assets where the asset is distressed or there is not an active market. The fair value of the assets measured at the NAV has been determined using the March 31, 2021 values, adjusted for cash flows. The investments measured at the NAV are typically not eligible for redemption. Distributions received as underlying investments within the funds are liquidated over the life of the investment. Cash and a portion of the short-term investments are not leveled under GASB Statement No. 72 "Fair Value Measurement and Application".

SBI has 60 investments that are valued at the NAV that are currently in the liquidation mode, totaling two percent of the NAV. The majority of the remaining value of investments in the liquidation mode will be returned to SBI within a time period of three to five years. SBI has a total of \$11,476,849,000 in unfunded commitments to the invested value of the NAV. Unfunded commitments is money that has been committed to an investment, but not yet transferred to the investor.

The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio composed of investments that provide diversification by industry type, stage of corporate development, and location.

The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio composed of investments that provide overall diversification by property type and location. The main components of this portfolio consist of investments in closed-end commingled funds. The remaining portion of the portfolio may include investments in less diversified, more focused (specialty) commingled funds and Real Estate Investment Trusts (REITs).

The strategy for real assets investments is to establish and maintain a portfolio of real assets investment vehicles that provide an inflation hedge and additional diversification. Real assets investments will include oil and gas investments and energy service industry investments that are diversified by geographic area as well as by type.

The strategy for private credit investments is to target funds that typically provide a current return and may have an equity component. Structures such as subordinated debt investments and mezzanine investments are typical private credit investments.

**Primary Government
Governmental, Proprietary, and Custodial Funds
Fair Value of Investments
As of June 30, 2021
(In Thousands)**

| Investments | Fair Value | Level 1 | Level 2 | Level 3 |
|--|--|----------------------------|-----------------------------|--------------------------|
| Equity: | | | | |
| Common Stock | \$ 2,392,413 | \$ 2,389,543 | \$ 2,870 | \$ — |
| Real Estate Investment Trust | 61,166 | 61,166 | — | — |
| Equity Total | <u>\$ 2,453,579</u> | <u>\$ 2,450,709</u> | <u>\$ 2,870</u> | <u>\$ —</u> |
| Fixed Income: | | | | |
| Asset-backed Securities | \$ 2,239,372 | \$ — | \$ 1,525,356 | \$ 714,016 |
| Mortgage-backed Securities | 518,551 | — | 518,551 | — |
| Corporate Bonds | 3,857,101 | — | 3,857,101 | — |
| Government Issues | 5,955,721 | 3,522 | 5,952,199 | — |
| Fixed Income Total | <u>\$ 12,570,745</u> | <u>\$ 3,522</u> | <u>\$ 11,853,207</u> | <u>\$ 714,016</u> |
| Total Investments by Fair Value | <u>\$ 15,024,324</u> ⁽¹⁾ | <u>\$ 2,454,231</u> | <u>\$ 11,856,077</u> | <u>\$ 714,016</u> |

⁽¹⁾ Total investments are less than the cash, cash equivalent investments, and investments shown on the face of the financial statements since cash and a portion of the short-term investments are not leveled under GASB Statement No. 72 "Fair Value Measurement and Application" and are not included in this table.

**Primary Government
Pension and Investment Trust Funds
Fair Value of Investments
As of June 30, 2021
(In Thousands)**

| Investments | Fair Value | Level 1 | Level 2 | Level 3 |
|---|--|-----------------------------|----------------------------|--------------------------|
| Equity: | | | | |
| Common Stock | \$ 48,152,001 | \$ 48,122,100 | \$ 29,704 | \$ 197 |
| Real Estate Investment Trust | 1,188,861 | 1,188,860 | 1 | — |
| Other Equity | 2,003,605 | 1,127,514 | 14,037 | 862,054 |
| Equity Total | <u>\$ 51,344,467</u> | <u>\$ 50,438,474</u> | <u>\$ 43,742</u> | <u>\$ 862,251</u> |
| Fixed Income: | | | | |
| Asset-backed Securities | \$ 1,043,340 | \$ — | \$ 922,717 | \$ 120,623 |
| Mortgage-backed Securities | 2,629,295 | — | 2,622,149 | 7,146 |
| Corporate Bonds | 5,509,470 | — | 5,508,139 | 1,331 |
| Government Issues | 14,604,588 | — | 14,604,588 | — |
| Other Debt Instruments | 647,283 | — | 647,283 | — |
| Fixed Income Total | <u>\$ 24,433,976</u> | <u>\$ —</u> | <u>\$24,304,876</u> | <u>\$ 129,100</u> |
| Investment Derivatives: | | | | |
| SWAPS | \$ 16,482 | \$ — | \$ 16,482 | \$ — |
| Options, Rights, Warrants | 155 | — | 155 | — |
| Investment Derivatives Total | <u>\$ 16,637</u> | <u>\$ —</u> | <u>\$ 16,637</u> | <u>\$ —</u> |
| Total Investments by Fair Value | <u>\$ 75,795,080</u> | <u>\$ 50,438,474</u> | <u>\$24,365,255</u> | <u>\$ 991,351</u> |
| Investments Measured at Net Asset Value (NAV): | | | | |
| | NAV | Number of Investments | Percent of NAV Value | Unfunded Commitments |
| Private Equity | \$ 10,893,979 | 170 | 70 % | \$ 7,941,503 |
| Real Estate | 1,243,515 | 28 | 8 | 1,470,868 |
| Real Assets | 1,896,614 | 32 | 12 | 689,065 |
| Private Credit | 1,454,608 | 41 | 10 | 1,375,413 |
| Total Investments at NAV | <u>\$ 15,488,716</u> | <u>271</u> | <u>100 %</u> | <u>\$ 11,476,849</u> |
| Total Investments by Fair Value and NAV | <u>\$ 91,283,796</u> ⁽¹⁾ | | | |

⁽¹⁾ Total investments are less than the cash, cash equivalent investments, and investments shown on the face of the financial statements since cash and a portion of the short-term investments are not leveled under GASB Statement No. 72 "Fair Value Measurement and Application" and are not included in this table.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The state does not have a formal policy regarding concentration of credit risk for rated corporate debt securities that are among the top four quality categories. For other types of investments, Minnesota Statutes 11A.24 established investment parameters which are outlined in the "Credit Risk of Debt Security Investments" section of this note. SBI determined the concentration of credit risk based on security identification number.

The state did have exposure to one single issuer that equaled or exceeded five percent of the overall portfolio as of June 30, 2021. Federal Farm Credit Banks Fund had an aggregate fair value of 6.1 percent of the total debt security total of the governmental, proprietary, and custodial funds.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SBI has established guidelines to be used by investment managers. Managers with authority to invest in foreign securities are given authority to hedge foreign currency through forward contracts to avoid currency losses.

The primary government, excluding pension and investment trust funds, had no exposure to foreign currency risk as of June 30, 2021. The following table shows the foreign currency risk for the pension and investment trust funds.

| Pension and Investment Trust Funds Foreign Currency Risk International Investment Securities at Fair Value As of June 30, 2021 (In Thousands) | | | |
|---|-----------|------------|---------------|
| Currency | Cash | Debt | Equity |
| Australian Dollar | \$ 1,581 | \$ — | \$ 574,802 |
| Brazilian Real | 1,080 | 17,952 | 186,859 |
| Canadian Dollar | 4,167 | 26,990 | 909,267 |
| Danish Krone | 685 | — | 282,733 |
| Euro Currency | 9,419 | 93,723 | 4,779,060 |
| Hong Kong Dollar | 3,038 | — | 1,149,660 |
| Japanese Yen | 9,531 | — | 1,987,272 |
| New Taiwan Dollar | 744 | — | 526,572 |
| Pound Sterling | 3,948 | 27,779 | 1,272,330 |
| Singapore Dollar | 552 | — | 97,272 |
| South African Rand | 114 | 13,236 | 108,295 |
| South Korean Won | 331 | — | 549,643 |
| Swedish Krona | 678 | — | 344,206 |
| Swiss Franc | 474 | — | 840,522 |
| Yuan Renminbi | 2,255 | — | 180,706 |
| Others | 7,071 | 124,114 | 397,835 |
| Total | \$ 45,668 | \$ 303,794 | \$ 14,187,034 |

Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counterparty, the state will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are held in the state's name and collateral for repurchase agreements is held in the state's name by third party agents. The primary government does not have a formal policy for custodial credit risk.

Securities Lending

Minnesota Statutes do not prohibit the state from participating in securities lending transactions. The state has, by a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to act as agent in lending state securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the state, certain securities held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the federal government. State Street does not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to at least 100 percent of the fair value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify the state in the event of default by a borrower. There were no failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the state and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested in a collective investment pool. As of June 30, 2021, the investment pool had an average duration of 1 day and an average weighted maturity of 107.98 days for U.S. dollar collateral.

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2021, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

The fair value of collateral held and the fair value of securities on loan for the state as of June 30, 2021, were \$7,712,727,000 and \$7,460,490,000, respectively. Securities received as collateral for which the state does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net position. Cash collateral of \$5,707,863,000 is reported in the Fiduciary Funds Statement of Net Position as an asset and corresponding liability.

**Primary Government
Pension and Investment Trust Funds
Securities Loaned
As of June 30, 2021
(In Thousands)**

| Investment Type | Fair Value |
|-------------------------------|---------------------|
| Domestic Equities | \$ 5,470,648 |
| U.S. Government Bonds | 742,618 |
| International Equities | 284,037 |
| Domestic Corporate Bonds | 963,050 |
| International Corporate Bonds | 137 |
| Total | <u>\$ 7,460,490</u> |

Component Units

Housing Finance Agency

As of June 30, 2021, the Housing Finance Agency (HFA) had \$1,317,432,000 of cash and cash equivalents and \$3,003,385,000 of investments. As of June 30, 2021, \$1,317,102,000 of deposits and \$2,891,905,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 6.6 – 27.7 years.

HFA cash equivalents included \$330,000 of investment agreements, which are generally uncollateralized, interest-bearing contracts.

HFA investments had an estimated fair value of \$3,003,385,000 as of June 30, 2021. Included in these investments were \$4,755,000 in U.S. Treasuries (not rated), and \$2,879,245,000 in U.S. Agencies having an S&P rating of AA+ and Moody's Investors Services rating of Aaa. An additional \$7,575,000 in municipal debt investments had an S&P rating of AA+.

HFA measured the fair value of its investments using the three-tier hierarchy of input quality specified by GASB Statement No. 72 "Fair Value Measurement and Application." HFA measured investments of \$6,516,000 and \$2,885,059,000 using Level 1 and Level 2 inputs, respectively. The remaining investments of \$111,810,000 related to premiums/discounts and unrealized appreciation/depreciation.

HFA had investments in single issuers as of June 30, 2021, excluding investments issued or explicitly guaranteed by the U.S. Government that exceeded five percent or more of total investments. These investments of \$1,317,746,000 were issued by Federal National Mortgage Association.

HFA entered into interest rate swap agreements that were considered to be derivative instruments under GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments." These interest rate swap agreements have been determined to be effective hedges and were reported at fair value as of June 30, 2021, as a liability called "Interest Rate Swap Agreements." The inception-to-date change in fair value as of June 30, 2021, was reported in "Accumulated Decrease in Fair Value of Hedging Derivative Instruments" deferred outflows of resources.

As of June 30, 2021, HFA had interest rate swap agreements with the following counterparties: the Bank of New York Mellon (two agreements), Royal Bank of Canada (five agreements) and Wells Fargo (two agreements) for total notional amounts of \$78,985,000, \$183,225,000, and \$80,000,000, and fair values of (\$3,383,000), (\$9,821,000), and (\$3,347,000), respectively. For these counterparties, the fair values for the

fiscal year ended June 30, 2021, increased \$2,370,000, increased \$4,671,000, and increased \$1,926,000, respectively.

The fair value of the swap represents HFA's potential exposure to credit risk. The counterparties, the Bank of New York Mellon, Royal Bank of Canada, and Wells Fargo have been rated by Moody's as Aa2, Aa2, and Aa2 respectively, and by S&P as AA-, AA-, and A+ respectively.

All swaps are pay-fixed, receive-variable. The initial notional amounts matched the original principal amounts and have terms which reduce the notional amounts to approximately follow the anticipated reductions in outstanding principal. HFA has also purchased the rights on the underlying mortgage loans, generally based upon a 300 percent PSA prepayment rate (the standard prepayment model of the Security Industries and Financial Market Association). This has further reduced the notional balances of the swaps as needed to match outstanding principal amounts of the associated bonds. HFA also has the right to terminate outstanding swaps in whole or in part at any time if it is not in default. The swap contracts may also be terminated by the counterparties, but are generally limited to HFA payment default or other HFA defaults that remain uncured for 30 days.

The variable rate HFA pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month taxable London Inter-Bank Offered Rate (LIBOR) rate or the Securities Industry and Financial Markets Association (SIFMA) index rate. This exposes HFA to basis risk (the risk that the rates do not equal), and this risk will vary over time due to inter-market conditions.

HFA assumes the risk that changes in the tax code may vary from the historical long-term relationship between taxable and tax-exempt short-term interest rates for economic reasons.

Metropolitan Council

As of December 31, 2020, the Metropolitan Council (MC) had \$592,957,000 in cash and cash equivalents and \$965,506,000 in investments. Of this amount, \$1,546,751,000 was subject to rating. Using the Moody's Investors Services rating scale, \$1,217,380,000 of these investments were rated Aaa, while \$329,371,000 were not rated. The net outstanding checks of \$11,712,000 comprise the remaining cash and investment amount.

MC has investment policies to address its various types of investment risks. Several MC investment holdings are subject to custodial credit risk. MC has a custodial credit risk exposure of \$1,948,000 because the related securities are held by a custodial agent in the broker's name.

MC measured the fair value of its investments using the three-tier hierarchy of input quality specified by GASB Statement No. 72 "Fair Value Measurement and Application." MC measured investments of \$436,914,000 and \$460,108,000 using Level 1 and Level 2 inputs, respectively. MC measured another \$390,260,000 of investments at the net asset value, while the remaining \$11,712,000 was cash and cash equivalents. MC also held \$246,263,000 in the Internal Equity Pool and \$13,206,000 in a cash fund with the State Board of Investment (SBI) was a trust account for other post-employment benefits (OPEB).

MC has adopted a simulation model of reporting investment sensitivity to fluctuation in interest rates. Assumptions are made of interest rate changes of 100, 200, and 300 basis points with interest rate changes occurring on December 31, 2020. The investment portfolio excluding the cash and escrow accounts and the OPEB trust portfolio has an average yield of .22 percent, weighted average maturity of 1.25 years, effective duration of 0.56 years, and convexity of -0.46.

The following table presents the estimated fair value of MC investments subject to interest rate risk using the simulation model.

**Major Component Unit
Metropolitan Council
Fair Value of Investments
As of December 31, 2020
(In Thousands)**

| Fair Value of Portfolio | Estimated Fair Value |
|--------------------------------|-------------------------|
| Before Basis Point Increase | \$ 1,558,463 |
| After Basis Point Increase of: | |
| 100 Points | 1,552,327 |
| 200 Points | 1,538,878 |
| 300 Points | 1,525,277 |

MC has used commodity futures as an energy forward pricing mechanism permitted by Minnesota Statutes 473.1293. Statutorily, MC may not hedge more than 100 percent of the projected consumption of any of its commodities and only up to 23 months into the future. Since 2004, MC has hedged most of its annual diesel fuel consumption. The hedging transactions are separate from fuel purchase transactions. For calendar year 2020, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2020, MC had 286 New York Mercantile Exchange (NYMEX) heating oil futures contracts (12.01 million gallons) acquired from April 02, 2019, through December 22, 2020, to terminate on dates from January 29, 2021, through September 30, 2022. As of December 31, 2020, the heating oil futures contracts had a fair value of \$18,165,000.

MC is using NYMEX heating oil futures to hedge its diesel fuel consumption. MC will be exposed to basis risk if the prices significantly deviate from each other. Historically, there has been a strong correlation between the two products.

University of Minnesota

As of June 30, 2021, the University of Minnesota (U of M), including its discretely presented component units, had \$829,232,000 of cash and cash equivalents and \$7,244,286,000 of investments. U of M's discretely presented component units do not classify investments according to risk because these entities prepare their financial statements under standards set by the Financial Accounting Standards Board. Excluding discretely presented component units, U of M reported cash and cash equivalents of \$687,927,000 and investments of \$3,081,997,000.

As of June 30, 2021, U of M's bank balance of \$215,081,000 was uninsured and uncollateralized.

U of M maintains centralized management for substantially all of its cash and investments. The Board of Regents establishes U of M's investment policies and objectives. U of M uses internal investment pools designed to meet respective investment objectives within established risk parameters for each pool.

U of M has established policies to address the various types of investment risks. U of M uses S&P ratings and duration as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. As of June 30, 2021, \$1,482,569,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- \$1,111,837,000 was rated AA or better
- \$30,133,000 was rated BBB to A
- \$11,300,000 was rated BB or lower
- \$329,299,000 was not rated

The securities subject to interest rate risk were comprised of the following:

- \$612,476,000 in government agencies with weighted average maturities of 3.4 to 3.9 years
- \$50,502,000 in mortgage-backed securities with a weighted average maturity of 15.8 years
- \$236,872,000 in cash and cash equivalents with a weighted average maturity of 0.0 years
- \$188,330,000 in mutual funds with a weighted average maturity of 5.1 years
- \$40,108,000 in corporate bonds with a weighted average maturity of 1.9 years
- \$24,982,000 in commercial paper with a weighted average maturity of 2.4 years

As of June 30, 2021, U of M had \$83,081,000 of equity investments subject to foreign currency risk. The two components of this amount are \$57,645,000 in Euro Currency and \$25,436,000 in British Pound Sterling.

As of June 30, 2021, several U of M investment holdings are subject to custodial credit risk. The fair value of investments the U of M held in the custodial accounts was \$1,007,375,000 in Temporary Investment Pool (TIP); \$133,363,000 in Consolidated Endowment Fund (CEF); and \$27,185,000 in Group Income Pool (GIP), respectively.

U of M measured the fair value of its investments using the three-tier hierarchy of input quality specified by GASB Statement No. 72 "Fair Value Measurement and Application." U of M measured investments of \$389,387,000, \$792,839,000, and \$6,026,000 using Level 1, 2 and 3 inputs, respectively. U of M measured another \$1,893,745,000 of investments at the net asset value.

Nonmajor Component Units

**Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Component Unit | Cash and Cash Equivalents | Investments |
|---|------------------------------|-------------------|
| Agricultural and Economic Development Board | \$ 974 | \$ 23,230 |
| Minnesota Comprehensive Health Association | 293 | — |
| Minnesota Sports Facilities Authority | 49,523 | — |
| National Sports Center Foundation | 1,376 | — |
| Office of Higher Education | 635,529 | — |
| Public Facilities Authority | 325,381 | 2,102 |
| Rural Finance Authority | 36,087 | — |
| Workers' Compensation Assigned Risk Plan | 11,546 | 295,494 |
| Total | <u>\$ 1,060,709</u> | <u>\$ 320,826</u> |

Note 3 – Disaggregation of Receivables

**Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2021
(In Thousands)**

| Description | Governmental Activities | | | Total |
|--|---------------------------------------|---------------------------|--|---------------------|
| | General Fund ⁽²⁾ | Federal Fund | Nonmajor Governmental Funds ⁽¹⁾ | |
| Taxes: | | | | |
| Corporate and Individual | \$ 1,237,168 | \$ — | \$ — | \$ 1,237,168 |
| Sales and Use | 463,117 | — | 36,455 | 499,572 |
| Property | 404,303 | — | — | 404,303 |
| Health Care Provider | 475,779 | — | — | 475,779 |
| Motor Vehicle/Fuel | — | — | 73,685 | 73,685 |
| Others | 60,004 | — | 35,526 | 95,530 |
| Child Support | 24,340 | 22,866 | 126 | 47,332 |
| Workers' Compensation | — | — | 27,185 | 27,185 |
| Others | 526,793 | 492,489 | 132,215 | 1,151,497 |
| Net Receivables | <u>\$ 3,191,504</u> | <u>\$ 515,355</u> | <u>\$ 305,192</u> | <u>\$ 4,012,051</u> |
| Business-type Activities | | | | |
| Description | State Colleges and Universities | Unemployment Insurance | Nonmajor Enterprise Funds | Total |
| Insurance Premiums | \$ — | \$ 408,352 | \$ — | \$ 408,352 |
| Tuition and Fees ⁽³⁾ | 62,053 | — | — | 62,053 |
| Others | — | — | 43,902 | 43,902 |
| Net Receivables | <u>\$ 62,053</u> | <u>\$ 408,352</u> | <u>\$ 43,902</u> | <u>\$ 514,307</u> |
| Total Government-wide Net Receivables | | | | <u>\$ 4,526,358</u> |

⁽¹⁾ Includes \$92.027 million for Internal Service Funds, less Internal Service Fund eliminations of \$86.917 million among Governmental Activities.

⁽²⁾ Includes \$475 thousand Interfund Receivables from Fiduciary Funds reclassified to Accounts Receivable on the Government-wide Statement of Net Position.

⁽³⁾ The revenue associated with tuition and fees is reduced by a scholarship allowance of \$271.763 million.

Accounts receivable are reported net of allowances for uncollectible amounts. Significant uncollectible amounts are:

- Corporate and Individual Taxes \$186,340,000
- Sales and Use Taxes \$41,874,000
- Child Support \$105,204,000

Receivable balances not expected to be collected within one year are:

- Corporate and Individual Taxes \$272,403,000
- Sales and Use Taxes \$101,231,000
- Child Support \$45,487,000
- Health Care Provider \$109,077,000
- Other Receivables \$217,447,000

Note 4 – Loans and Notes Receivable

**Primary Government
Loans and Notes Receivable, Net of Allowance
As of June 30, 2021
(In Thousands)**

| Loan Purpose | General Fund | Federal Fund | Nonmajor Special Revenue Funds | State Colleges and Universities Fund | Total Loans and Notes Receivable |
|--|------------------|-----------------|--------------------------------|--------------------------------------|----------------------------------|
| Student Loan Program | \$ — | \$ — | \$ — | \$ 12,898 | \$ 12,898 |
| Economic Development | 87,838 | 4,767 | 42,175 | — | 134,780 |
| School Districts | 1,965 | — | — | — | 1,965 |
| Agricultural, Environmental and Energy Resources | — | — | 85,679 | — | 85,679 |
| Transportation | — | — | 2,223 | — | 2,223 |
| Others | 6,585 | — | 564 | 1,492 | 8,641 |
| Total | \$ 96,388 | \$ 4,767 | \$ 130,641 | \$ 14,390 | \$ 246,186 |

**Component Units
Loans and Notes Receivable
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Component Unit | Loans and Notes Receivable |
|-----------------------------------|----------------------------|
| Housing Finance Agency | \$ 929,112 |
| Metropolitan Council | 44,700 |
| University of Minnesota | 67,191 |
| National Sports Center Foundation | 566 |
| Office of Higher Education | 442,083 |
| Public Facilities Authority | 1,797,880 |
| Rural Finance Authority | 98,336 |
| Total | \$ 3,379,868 |

Note 5 – Interfund Transactions and Balances with Component Units

Primary Government

During normal operations, the state processes routine transactions between funds, including loans, expenditures, and transfers of resources for administrative and program services, debt service, and compliance with legal mandates.

In the fund financial statements, these transactions are generally recorded as transfers in/out and interfund receivables/payables. Transfers generally represent legally authorized transfers between funds authorized to receive revenue and funds authorized to make expenditures, and do not represent reimbursement of expenditures.

**Primary Government
Interfund Receivables and Payables
As of June 30, 2021
(In Thousands)
(Continued)**

**Primary Government
Interfund Receivables and Payables
As of June 30, 2021
(In Thousands)**

| Description | Amount |
|--|-------------------|
| Due to the General Fund From: | |
| Federal Fund | \$ 104,394 |
| Nonmajor Governmental Funds | 48,236 |
| Nonmajor Enterprise Funds | 22,625 |
| Internal Service Funds | 50,493 |
| Fiduciary Funds | 475 |
| Total Due to General Fund From Other Funds | <u>\$ 226,223</u> |
| Due to the Federal Fund From: | |
| Unemployment Insurance Fund | \$ 49 |
| Total Due to Federal Fund From Other Funds | <u>\$ 49</u> |
| Due to the State Colleges and Universities Fund From: | |
| Nonmajor Governmental Funds | \$ 29,150 |
| Total Due to State Colleges and Universities Fund From Other Funds | <u>\$ 29,150</u> |
| Due to the Unemployment Insurance Fund From: | |
| General Fund | \$ 3,665 |
| Federal Fund | 2 |
| Nonmajor Governmental Funds | 1,898 |
| Nonmajor Enterprise Funds | 33 |
| Total Due to Unemployment Insurance Fund From Other Funds | <u>\$ 5,598</u> |
| Due to Nonmajor Enterprise Funds From: | |
| General Fund | \$ 4,500 |
| Internal Service Funds | 1,500 |
| Total Due to Nonmajor Enterprise Funds From Other Funds | <u>\$ 6,000</u> |
| Due to the Internal Service Funds From: | |
| Internal Service Funds | 325 |
| Total Due to Internal Service | <u>\$ 325</u> |
| Due to Fiduciary Funds From: | |
| Fiduciary Funds | \$ 12,746 |
| Total Due to Fiduciary Funds From Other Funds | <u>\$ 12,746</u> |

| Description | Amount |
|---|-------------------|
| Due to Nonmajor Governmental Funds From: | |
| General Fund | \$ 38,402 |
| Unemployment Insurance Fund | 19,587 |
| Nonmajor Governmental Funds | 365,048 |
| Nonmajor Enterprise Funds | 2,881 |
| Total Due to Nonmajor Governmental Funds From Other Funds | <u>\$ 425,918</u> |

**Primary Government
Interfund Transfers
Year Ended June 30, 2021
(In Thousands)**

| Description | Amount |
|--|---------------------|
| Transfers to the General Fund From: | |
| Federal Fund | \$ 43,031 |
| Nonmajor Governmental Funds | 54,577 |
| Nonmajor Enterprise Funds | 150,996 |
| Internal Service Funds | 25,591 |
| Total Transfers to General Fund From Other Funds | <u>\$ 274,195</u> |
| Transfers to the Federal Fund From: | |
| Unemployment Insurance Fund | \$ 26 |
| Nonmajor Governmental Funds | 1,006 |
| Total Transfers to Federal Fund From Other Funds | <u>\$ 1,032</u> |
| Transfers to the State Colleges and Universities Fund From: | |
| General Fund | \$ 775,244 |
| Nonmajor Governmental Funds | 21,512 |
| Total Transfers to State Colleges and Universities Fund From Other Funds | <u>\$ 796,756</u> |
| Transfers to Fiduciary Funds From: | |
| General Fund | \$ 84,788 |
| Fiduciary Funds | 30,722 |
| Total Transfers to Fiduciary Funds From Other Funds | <u>\$ 115,510</u> |
| Transfers to Nonmajor Governmental Funds From: | |
| General Fund | \$ 709,409 |
| Federal Fund | 143 |
| Unemployment Insurance Fund | 1,539 |
| Nonmajor Governmental Funds | 263,225 |
| Nonmajor Enterprise Funds | 37,836 |
| Internal Service Funds | 7,088 |
| Total Transfers to Nonmajor Governmental Funds From Other Funds | <u>\$ 1,019,240</u> |
| Transfers to Nonmajor Enterprise Funds From: | |
| General Fund | \$ 13,244 |
| Nonmajor Governmental Funds | 1,220 |
| Total Transfers to Nonmajor Enterprise Funds From Other Funds | <u>\$ 14,464</u> |
| Transfers to Government-wide Capital Assets From: | |
| Nonmajor Enterprise Funds | \$ 567 |
| Total Transfers to Government-wide Capital Assets | <u>\$ 567</u> |

Component Units

**Primary Government and Component Units
Receivables and Payables
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Component Units | Due from Primary Government | Due to Primary Government |
|--------------------------------|-----------------------------------|----------------------------------|
| Major Component Units: | | |
| Housing Finance Agency | \$ 75 | \$ — |
| Metropolitan Council | 96,913 | — |
| University of Minnesota | 37,546 | 2,325 |
| Total Major Component Units | <u>\$ 134,534</u> | <u>\$ 2,325</u> |
| Nonmajor Component Units | 163,228 | 146,491 |
| Total Component Units | <u>\$ 297,762</u> | <u>\$ 148,816</u> |
| | Due from Component Units | Due to Component Units |
| Primary Government | | |
| Major Governmental Funds: | | |
| General Fund | \$ 5,467 | \$ 111,429 |
| Federal Fund | — | 115,777 |
| Total Major Governmental Funds | <u>\$ 5,467</u> | <u>\$ 227,206</u> |
| Nonmajor Governmental Funds | 112,194 | 12,068 |
| Total Primary Government | <u>\$ 117,661</u> | <u>\$ 239,274</u> ⁽¹⁾ |

⁽¹⁾ Due to Component Units on the Government-wide Statement of Net Position totals \$242.176 million and includes \$2.902 million of loans payable to the Public Facilities Authority (component unit) that are not fund level liabilities.

The Due to Primary Government balance exceeds the Due from Component Units balance by \$31,155,000 because the Metropolitan Council, the Workers' Compensation Assigned Risk Plan, and the National Sports Center Foundation use a different fiscal year end than the primary government. The \$58,488,000 difference between the Due from Primary Government balance and the Due to Component Units balance is also due to these different fiscal year ends as well as the \$2,902,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

| Primary Government Capital Asset Activity Government-wide Governmental Activities Year Ended June 30, 2021 (In Thousands) | | | | |
|---|----------------|--------------|--------------|----------------|
| Asset Category | Beginning | Additions | Deductions | Ending |
| Governmental Activities: | | | | |
| Capital Assets not Depreciated: | | | | |
| Land | \$ 2,788,654 | \$ 64,970 | \$ (8,900) | \$ 2,844,724 |
| Buildings, Structures, Improvements | 333,834 | 8,418 | — | 342,252 |
| Construction in Progress | 316,029 | 144,573 | (243,125) | 217,477 |
| Development in Progress | 231,748 | 67,047 | (54,651) | 244,144 |
| Infrastructure | 11,725,576 | 556,377 | (3,437) | 12,278,516 |
| Easements | 466,507 | 49,986 | (86) | 516,407 |
| Art and Historical Treasures | 7,724 | 1,347 | — | 9,071 |
| Total Capital Assets not Depreciated | \$ 15,870,072 | \$ 892,718 | \$ (310,199) | \$ 16,452,591 |
| Capital Assets Depreciated: | | | | |
| Buildings, Structures, Improvements | \$ 3,481,419 | \$ 206,398 | \$ (1,190) | \$ 3,686,627 |
| Infrastructure | 423,225 | 29,417 | (583) | 452,059 |
| Internally Generated Computer Software | 434,146 | 52,268 | (83,828) | 402,586 |
| Easements | 3,897 | 143 | (12) | 4,028 |
| Equipment, Furniture, Fixtures | 928,644 | 76,149 | (36,830) | 967,963 |
| Total Capital Assets Depreciated | \$ 5,271,331 | \$ 364,375 | \$ (122,443) | \$ 5,513,263 |
| Accumulated Depreciation for: | | | | |
| Buildings, Structures, Improvements | \$ (1,593,039) | \$ (100,724) | \$ 1,074 | \$ (1,692,689) |
| Infrastructure | (137,783) | (13,788) | 67 | (151,504) |
| Internally Generated Computer Software | (235,192) | (74,129) | 83,811 | (225,510) |
| Easements | (1,249) | (92) | 12 | (1,329) |
| Equipment, Furniture, Fixtures | (542,642) | (71,090) | 29,456 | (584,276) |
| Total Accumulated Depreciation | \$ (2,509,905) | \$ (259,823) | \$ 114,420 | \$ (2,655,308) |
| Total Capital Assets Depreciated, Net | \$ 2,761,426 | \$ 104,552 | \$ (8,023) | \$ 2,857,955 |
| Governmental Act. Capital Assets, Net | \$ 18,631,498 | \$ 997,270 | \$ (318,222) | \$ 19,310,546 |

Capital outlay expenditures in the governmental funds totaled \$929,456,000 for fiscal year 2021. Donations of general capital assets received were valued at \$14,187,000. Transfers of \$294,729,000 were primarily from construction in progress for completed projects and a transfer-in from the business-type activities of \$567,000. Internal service funds had additions of \$18,721,000.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2021, consisted of buildings with a cost of \$180,005,000.

Primary Government Capital Asset Activity Government-wide Business-type Activities and Fiduciary Funds Year Ended June 30, 2021 (In Thousands)

| Asset Category | Beginning | Additions | Deductions | Ending |
|--|----------------|--------------|--------------|----------------|
| Business-type Activities: | | | | |
| Capital Assets not Depreciated: | | | | |
| Land | \$ 94,996 | \$ 6 | \$ (1,068) | \$ 93,934 |
| Intangible Capital Asset | — | 596 | — | 596 |
| Construction in Progress | 114,572 | 61,203 | (102,609) | 73,166 |
| Total Capital Assets not Depreciated | \$ 209,568 | \$ 61,805 | \$ (103,677) | \$ 167,696 |
| Capital Assets Depreciated: | | | | |
| Buildings, Structures, Improvements | \$ 3,895,565 | \$ 104,327 | \$ (32,311) | \$ 3,967,581 |
| Infrastructure | 28,153 | 2,098 | — | 30,251 |
| Library Collections | 35,784 | 4,766 | (5,864) | 34,686 |
| Internally Generated Computer Software | 65,047 | 716 | (886) | 64,877 |
| Equipment, Furniture, Fixtures | 347,171 | 9,881 | (6,347) | 350,705 |
| Total Capital Assets Depreciated | \$ 4,371,720 | \$ 121,788 | \$ (45,408) | \$ 4,448,100 |
| Accumulated Depreciation for: | | | | |
| Buildings, Structures, Improvements | \$ (2,068,546) | \$ (123,056) | \$ 30,734 | \$ (2,160,868) |
| Infrastructure | (18,043) | (1,213) | — | (19,256) |
| Library Collections | (21,480) | (4,955) | 5,864 | (20,571) |
| Internally Generated Computer Software | (29,237) | (6,718) | 886 | (35,069) |
| Equipment, Furniture, Fixtures | (271,129) | (17,022) | 5,988 | (282,163) |
| Total Accumulated Depreciation | \$ (2,408,435) | \$ (152,964) | \$ 43,472 | \$ (2,517,927) |
| Total Capital Assets Depreciated, Net | \$ 1,963,285 | \$ (31,176) | \$ (1,936) | \$ 1,930,173 |
| Business-type Act. Capital Assets, Net | \$ 2,172,853 | \$ 30,629 | \$ (105,613) | \$ 2,097,869 |
| Fiduciary Funds: | | | | |
| Capital Assets not Depreciated: | | | | |
| Land | \$ 429 | \$ — | \$ — | \$ 429 |
| Construction in Progress | — | 182 | — | 182 |
| Total Capital Assets not Depreciated | \$ 429 | \$ 182 | \$ — | \$ 611 |
| Capital Assets Depreciated: | | | | |
| Buildings | \$ 29,763 | \$ — | \$ — | \$ 29,763 |
| Internally Generated Computer Software | 36,020 | — | — | 36,020 |
| Equipment, Furniture, Fixtures | 7,586 | 517 | (293) | 7,810 |
| Total Capital Assets Depreciated | \$ 73,369 | \$ 517 | \$ (293) | \$ 73,593 |
| Accumulated Depreciation for: | | | | |
| Buildings | \$ (14,172) | \$ (738) | \$ — | \$ (14,910) |
| Internally Generated Computer Software | (15,780) | (3,066) | — | (18,846) |
| Equipment, Furniture, Fixtures | (6,013) | (743) | 293 | (6,463) |
| Total Accumulated Depreciation | \$ (35,965) | \$ (4,547) | \$ 293 | \$ (40,219) |
| Total Capital Assets Depreciated, Net | \$ 37,404 | \$ (4,030) | \$ — | \$ 33,374 |
| Fiduciary Funds, Capital Assets, Net | \$ 37,833 | \$ (3,848) | \$ — | \$ 33,985 |

Transfers for Business-type Activities totaling \$102,042,000 primarily related to construction in progress for completed projects.

**Primary Government
Depreciation Expense
Government-wide
Year Ended June 30, 2021
(In Thousands)**

| Function | Depreciation Expense |
|--|----------------------|
| Governmental Activities: | |
| Agricultural, Environmental & Energy Resources | \$ 16,624 |
| Economic and Workforce Development | 1,328 |
| General Education | 5,233 |
| General Government | 74,735 |
| Health and Human Services | 42,904 |
| Public Safety and Corrections | 51,057 |
| Transportation | 46,832 |
| Internal Service Funds | 21,110 |
| Total Governmental Activities | \$ 259,823 |
| Business-type Activities: | |
| State Colleges and Universities | \$ 137,279 |
| Lottery | 539 |
| Others | 15,146 |
| Total Business-type Activities | \$ 152,964 |

**Primary Government
Significant Project Authorizations and Commitments
As of June 30, 2021
(In Thousands)**

| Description | Administration | Transportation |
|--|-------------------|------------------|
| Authorization | \$ 886,367 | \$ 2,295,624 |
| Less: Expended (through June 30) | (688,845) | (1,717,801) |
| Less: Unexpended Commitment | (39,273) | (510,430) |
| Remaining Available Authorization | \$ 158,249 | \$ 67,393 |

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation consisting of 2,512,754 total acres as of June 30, 2021.

Component Units

**Component Units
Capital Assets
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Asset Category | Major Component Units | | | | Total |
|--|------------------------|-----------------------|-------------------------|--------------------------|-----------------------|
| | Housing Finance Agency | Metropolitan Council | University of Minnesota | Nonmajor Component Units | |
| Capital Assets not Depreciated: | | | | | |
| Land | \$ — | \$ 257,053 | \$ 237,543 | \$ 35,547 | \$ 530,143 |
| Construction in Progress | — | 1,573,905 | 63,708 | 402 | 1,638,015 |
| Leased Buildings | — | — | 149,176 | — | 149,176 |
| Museums and Collections | — | — | 100,721 | — | 100,721 |
| Easements | — | — | 5 | — | 5 |
| Total Capital Assets not Depreciated | \$ — | \$ 1,830,958 | \$ 551,153 | \$ 35,949 | \$ 2,418,060 |
| Capital Assets Depreciated: | | | | | |
| Buildings, Structures, Improvements | \$ — | \$ 5,108,531 | \$ 4,809,388 | \$ 874,915 | \$10,792,834 |
| Infrastructure | — | — | 470,407 | 32,917 | 503,324 |
| Library | — | — | 178,395 | — | 178,395 |
| Internally Generated Computer Software | 11,007 | — | 201,005 | — | 212,012 |
| Equipment, Furniture, Fixtures | 3,366 | 1,337,531 | 855,022 | 237,343 | 2,433,262 |
| Other Intangibles | — | — | 6,903 | — | 6,903 |
| Total Capital Assets Depreciated | \$ 14,373 | \$ 6,446,062 | \$ 6,521,120 | \$ 1,145,175 | \$14,126,730 |
| Total Accumulated Depreciation | \$ (12,241) | \$ (3,029,570) | \$ (3,871,577) | \$ (261,080) | \$ (7,174,468) |
| Total Capital Assets Depreciated, Net⁽¹⁾ | \$ 2,132 | \$ 3,416,492 | \$ 2,649,543 | \$ 884,095 | \$ 6,952,262 |
| Component Units Capital Assets, Net | \$ 2,132 | \$ 5,247,450 | \$ 3,200,696 | \$ 920,044 | \$ 9,370,322 |

⁽¹⁾ In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of \$90.282 million as of June 30, 2021.

Note 7 – Disaggregation of Payables

**Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2021
(In Thousands)**

| Description | Governmental Activities | | | Total |
|---------------------------|-------------------------|---------------------|--|---------------------|
| | General Fund | Federal Fund | Nonmajor Governmental Funds ⁽¹⁾ | |
| School Aid Programs | \$ 1,030,792 | \$ 296,528 | \$ 2,689 | \$ 1,330,009 |
| Tax Refunds | 557,959 | — | — | 557,959 |
| Medical Care Programs | 916,911 | 1,818,374 | 10,545 | 2,745,830 |
| Grants | 410,164 | 431,277 | 318,159 | 1,159,600 |
| Salaries and Benefits | 162,638 | 25,772 | 63,254 | 251,664 |
| Vendors/Service Providers | 181,032 | 182,857 | 292,759 | 656,648 |
| Net Payables | <u>\$ 3,259,496</u> | <u>\$ 2,754,808</u> | <u>\$ 687,406</u> | <u>\$ 6,701,710</u> |

| Description | Business-type Activities | | | Total |
|---------------------------|---------------------------------|------------------------|---------------------------|-------------------|
| | State Colleges and Universities | Unemployment Insurance | Nonmajor Enterprise Funds | |
| Salaries and Benefits | \$ 145,816 | — | \$ 11,339 | \$ 157,155 |
| Vendors/Service Providers | 48,459 | 182,905 | 63,402 | 294,766 |
| Net Payables | <u>\$ 194,275</u> | <u>\$ 182,905</u> | <u>\$ 74,741</u> | <u>\$ 451,921</u> |

| | | | | |
|------------------------------------|--|--|--|---------------------|
| Total Government-wide Net Payables | | | | <u>\$ 7,153,631</u> |
|------------------------------------|--|--|--|---------------------|

⁽¹⁾ Includes \$51.847 million for Internal Service Funds, less Internal Service Fund eliminations of \$86.917 million among Governmental Activities.

Note 8 – Pension and Investment Trust Funds

Primary Government Administered Plans

The state performs a fiduciary role for several pension and investment trust funds. For some of these funds, the state contributes as an employer and/or a non-employer contributing entity and performs only a fiduciary role for other funds. These trust funds are categorized as either defined benefit or defined contribution (pension trust funds) or investment trust funds.

Three plan administrators, who prepare and publish their own stand-alone annual comprehensive financial reports, including financial statements and required supplementary information, and Minnesota State Colleges and Universities (MnSCU), which publishes a stand-alone pension statement, provide the pension fund information. Each plan administrator accounts for one or more pension plans. Copies of these reports may be obtained directly from the organizations listed below.

| Plan Administrator | Plans Covered |
|---|--|
| Minnesota State Retirement System (MSRS) | State Employees Retirement Fund Correctional Employees Retirement Fund Judges Retirement Fund Legislators Retirement Fund State Patrol Retirement Fund Hennepin County Supplemental Retirement Fund Health Care Savings Fund Unclassified Employees Retirement Fund Minnesota Deferred Compensation Fund |
| Public Employees Retirement Association (PERA) | General Employees Retirement Fund Police and Fire Fund Public Employees Correctional Fund Volunteer Firefighter Retirement Fund Defined Contribution Fund |
| Teachers Retirement Association (TRA) | Teachers Retirement Fund |
| Minnesota State Colleges and Universities (MnSCU) | State Colleges and Universities Retirement Fund |

See Note 1 – Summary of Significant Accounting and Reporting Policies for addresses of MSRS, PERA, and TRA. The address of the administrative agent (TIAA-CREF), for MnSCU is included in the “Defined Contribution Funds” section of this note.

Basis of Accounting and Valuation of Investments

The plan administrators prepare financial statements using the accrual basis of accounting which is the basis used to determine the fiduciary net position used by the plans. Member and employer contributions are recognized in the period in which they are earned and become due. Expenses are recognized when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the statutory terms of each plan.

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing “units” in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in security trade receivables and payables. These unsettled security trades are an essential element in determining the fair value of each pension trust fund’s pooled investment balance; therefore, the trades are reported in the combining statement of net position of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2021, this presentation resulted in a negative asset within the total investment pool participation.

Non-Primary Government Administered Plan

The state contributes as a non-employer contributing entity into the St. Paul Teachers’ Retirement Fund, but does not perform any other fiduciary responsibilities. Separately-issued financial statements for the St. Paul Teachers’ Retirement Fund Association may be obtained at St. Paul Teachers’ Retirement Association, 1619 Dayton Avenue, Room 309, St. Paul, MN 55104.

Defined Benefit Plans

Primary Government Administered Multiple-Employer Cost Sharing Plans

The State Employees Retirement Fund (SERF) covers most state employees, the University of Minnesota (component unit) non-faculty employees, and selected metropolitan agency employees. Fifteen employers participate in this plan. The plan provides retirement, survivor, and disability benefits.

Benefit Formula Members hired before July 1, 1989: Step or Level formula, whichever is greater.
Members hired on or after July 1, 1989: Level formula.

Step formula: 1.2 percent of the high-five average salary for each of the first 10 years of allowable service, and 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90 or greater).

Level formula: 1.7 percent of the high-five average salary for all years of allowable service, with full benefits at normal retirement age. Not eligible for benefits under the Rule of 90.

Annual Benefit Increase 1.0 percent through December 31, 2023 and 1.5 percent thereafter. Benefit increases for retirements on or after January 1, 2024 are delayed until the retiree reaches normal retirement age.

The Correctional Employees Retirement Fund (CERF) primarily covers state employees who have direct contact with inmates or patients in Minnesota correctional facilities, the state operated forensic service program, or the Minnesota sex offender program. Two employers participate in this plan. The plan provides retirement, survivor, and disability benefits.

Benefit Formula Members hired before July 1, 2010: 2.4 percent of the high-five average salary for each year of allowable service.

Members hired on or after July 1, 2010: 2.2 percent of the high-five average salary for each year of allowable service.

Annual Benefit Increase 1.5 percent fixed rate.

The General Employees Retirement Fund (GERF) covers employees of various governmental units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,100 employers participate in this plan. The plan provides retirement, survivor, and disability benefits. Minneapolis Employees Retirement Fund (MERF) merged into GERF on January 1, 2015.

Membership Types Basic membership: Participants who are not covered by the Social Security Act.
Coordinated membership: Participants who are covered by the Social Security Act.

Benefit Formula Members hired before July 1, 1989: Step or Level formula, whichever is greater.
Members hired on or after July 1, 1989: Level formula.

Step Formula: 1.2 percent of the high-five average salary for each of the first 10 years of allowable service, then 1.7 percent for each year thereafter for Coordinated members. The rates are 2.2 percent and 2.7 percent, respectively, for Basic members. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90 or greater).

Level Formula: 1.7 percent of the high-five average salary for all years of allowable service for Coordinated members, and 2.7 percent for Basic members. Full benefits at normal retirement age. Not eligible for benefits under the Rule of 90.

Former MERF members: 2.0 percent of the high-five average salary for each of the first 10 years of allowable service and 2.5 percent for each year thereafter.

Annual Benefit Increase 50 percent of the Social Security Administration increase, but not less than 1.0 percent or more than 1.5 percent. The benefit increase of 1.25 percent is projected for all years. Benefit increases for retirements on or after January 1, 2024 are delayed until the retiree reaches normal retirement age.

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 430 employers participate in this plan. The plan provides retirement, survivor, and disability benefits.

Benefit Formula 3.0 percent of the high-five average salary for each year of allowable service.
Members hired after June 30, 2014 limited to 33 years of allowable service.

Annual Benefit Increase 1.0 percent fixed rate.

The Public Employees Correctional Fund (PECF) covers employees in county and regional correctional facilities who are responsible for the security, custody, and control of the facilities and inmates. Approximately eighty employers participate in this plan. The plan provides retirement, survivor, and disability benefits.

Benefit Formula 1.9 percent of the high-five average salary for each year of allowable service.

Annual Benefit Increase 100 percent of the Social Security Administration increase, but not less than 1.0 percent or more than 2.5 percent. If the plan's funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will change to 1.5 percent maximum permanently. The benefit increase of 2.0 percent is projected for all years.

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state except those teachers employed by the City of St Paul and the University of Minnesota. Approximately 600 employers participate in this plan. The plan provides retirement, survivor, and disability benefits.

| | |
|-------------------------|--|
| Membership Types | Basic membership: Participants who are not covered by the Social Security Act. Coordinated membership: Participants who are covered by the Social Security Act. |
| Benefit Formula | Members hired before July 1, 1989: Step or Level formula, whichever is greater. Members hired on or after July 1, 1989: Level formula. |
| | Step Formula: Coordinated members receive 1.2 percent of the high-five average salary for each of the first 10 years of allowable service prior to July 1, 2006, and 1.4 percent for any of the first 10 years after that date. For allowable years of service after the first ten years, Coordinated members receive 1.7 percent for each year prior to July 1, 2006 and 1.9 percent for years after that date. |
| | Basic members receive 2.2 percent of the high-five average salary for each of the first 10 years of allowable service, and 2.7 percent for each year thereafter. |
| | The Step formula also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90 or greater). |
| | Level Formula: Coordinated members receive 1.7 percent of the high-five average salary for all years of allowable service prior to July 1, 2006 and 1.9 percent for years thereafter. |
| | Basic members receive 2.7 percent of the high-five average salary for all years of allowable service. |
| | The Level formula provides full benefits at normal retirement age. Not eligible for benefits under the Rule of 90. |
| Annual Benefit Increase | 1.0 percent through December 31, 2023, then increase by 0.1 percent each year over five years, and 1.5 percent thereafter. Benefit increases for retirements on or after January 1, 2024 are delayed until the retiree reaches normal retirement age. |

Primary Government Administered Multiple-Employer Cost Sharing Plans

Statutory Contribution Rates

(In Thousands)

| Description | SERF | CERF ⁽¹⁾ | GERF | P&FF | TRF ⁽²⁾ |
|---|------------|---------------------|-------------------|----------|-----------------------|
| Minnesota Statutory Authority | 352.04 | 352.92 | 353.27 353.505 | 353.65 | 354.42 354.435,436 |
| Required Contribution Rate: | | | | | |
| Active Members | 6.0% | 9.6% | 6.5-9.75% | 11.8% | 7.5-11.0% |
| Employer(s) | 6.25% | 17.35% | 7.5-11.78% | 17.7% | 8.13-12.13% |
| Non-Employer Contributing Entity | \$ — | \$ — | \$ 16,000 | \$ 9,000 | \$ 31,087 |
| Primary Government Contributions – Reporting Period | \$ 156,738 | \$ 48,662 | \$ 17,720 | \$ 9,586 | \$ 47,696 |

- ⁽¹⁾ Additional supplemental employer contributions increase from 2.95 percent to 4.45 percent of salary annually in fiscal year 2022. The 4.45 percent will remain in effect until the plan is 100 percent funded.
- ⁽²⁾ An additional contribution of 3.64 percent of salary from Special School District No.1 brings the top of the Employer contribution range to 15.77 percent. Member contribution rates increase by 0.25 percent effective fiscal year 2024. Employer contribution rate increases by 0.62 percent over the next three years.

Primary Government Administered Multiple-Employer Cost Sharing Plans

Summary of Pension Amounts

As of June 30, 2021

(In Thousands)

| Description | SERF ⁽¹⁾ | CERF ⁽¹⁾ | GERF ⁽¹⁾ | P&FF ⁽¹⁾ | TRF ⁽¹⁾ | Total |
|---|---------------------|---------------------|---------------------|---------------------|--------------------|--------------|
| Primary Government's Proportionate Share of the Net Pension Liability as of: | | | | | | |
| Employer | \$ 998,968 | \$ 447,093 | \$ 22,051 | \$ 3,635 | \$ 256,907 | \$ 1,728,654 |
| Non-Employer Contributing Entity | — | — | 179,348 | 60,676 | 499,032 | 739,056 |
| Total | \$ 998,968 | \$ 447,093 | \$ 201,399 | \$ 64,311 | \$ 755,939 | \$ 2,467,710 |
| Primary Government's Total Proportionate Share Percentage of the Net Pension Liability as of: | | | | | | |
| Current Year Measurement Date | 75.21% | 99.95% | 3.36% | 4.88% | 10.23% | |
| Prior Year Measurement Date | 74.94% | 99.87% | 3.43% | 5.40% | 10.65% | |
| Deferred Outflows of Resources | \$ 253,696 | \$ 68,515 | \$ 53,417 | \$ 85,782 | \$ 345,792 | \$ 807,202 |
| Deferred Inflows of Resources | \$ 2,265,472 | \$ 291,194 | \$ 17,914 | \$ 50,606 | \$ 755,699 | \$ 3,380,885 |
| Net Pension Expense | \$ 252,702 | \$ 26,112 | \$ 30,127 | \$ 22,574 | \$ 87,954 | \$ 419,469 |

- ⁽¹⁾ Proportionate share was determined based on the primary government's percentage of employer and non-employer contributing entity contributions into the plan.

**Primary Government Administered Multiple-Employer Cost Sharing Plans
Actuarial Assumptions**

| Description | SERF ⁽¹⁾ | CERF ⁽²⁾⁽⁴⁾⁽⁵⁾ | GERF ⁽¹⁾ | P&FF ⁽²⁾⁽⁴⁾⁽⁵⁾ | TRF ⁽²⁾ |
|--|--------------------------|---------------------------|--------------------------|---------------------------|--------------------|
| Actuarial Valuation/ Measurement Date | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2020 |
| Long-Term Expected Rate | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| 20 Year Municipal Bond Rate ⁽²⁾ | 2.45% | 2.45% | 2.45% | 2.45% | 2.19% |
| Experience Study Dates | 2014-2018 | 2011-2015 | 2014-2018 | 2011-2015 | 2014-2018 |
| Inflation | 2.25% | 2.50% | 2.25% | 2.50% | 2.50% |
| Salary Increases | Service Related Rates | Service Related Rates | Service Related Rates | Service Related Rates | 2.85-9.25% |
| Payroll Growth | 3.00% | 3.25% | 3.00% | 3.25% | 3.00% |

- ⁽¹⁾ For SERF and GERF, the Pub-2010 General Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2018 for SERF, and Scale MP-2019 for GERF. There are various adjustments in each plan to match experience. For the prior measurement period, the RP-2014 Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2015 for SERF and Scale MP-2018 for GERF. In fiscal year 2022, GERF will adjust for mortality improvements based on Scale MP-2020.
- ⁽²⁾ For CERF, P&FF, and TRF mortality rate assumptions, the RP-2014 Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2015 for CERF and TRF, and Scale MP-2019 for P&FF. There are various adjustments in each plan to match experience. For the prior measurement period, P&FF was adjusted for mortality improvements based on Scale MP-2018. In fiscal year 2022, P&FF will use the Pub-2010 Public Safety Mortality table and will adjust for mortality improvements based on Scale MP-2020 and CERF will use the Pub-2010 General Mortality table and will adjust for mortality improvements based on Scale MP-2019.
- ⁽³⁾ Source: Fidelity Index for SERF, CERF, GERF, and P&FF and Bond Buyers for TRF.
- ⁽⁴⁾ The inflation assumption for fiscal year 2022 will change to 2.25 percent for CERF and P&FF.
- ⁽⁵⁾ The payroll growth assumption for fiscal year 2022 will change to 3.00 percent for CERF and P&FF.

**Primary Government Administered Multiple-Employer Cost Sharing Plans
Deferred Outflows of Resources
As of June 30, 2021
(In Thousands)**

| Description | SERF | CERF | GERF | P&FF | TRF | Total |
|--|------------|-----------|-----------|-----------|------------|------------|
| Difference Between Expected and Actual Experience | \$ 17,930 | \$ 12,256 | \$ 1,836 | \$ 2,842 | \$ 15,160 | \$ 50,024 |
| Changes in Assumption | — | — | — | 21,552 | 271,231 | 292,783 |
| Net Difference Between Projected and Actual Earnings on Investment | 47,645 | 7,120 | 3,479 | 1,953 | 11,705 | 71,902 |
| Change in Proportionate Difference Between Actual Contributions and Proportionate Share of Contributions | 31,383 | 477 | 30,382 | 49,849 | — | 112,091 |
| Contributions Subsequent to the Measurement Date | 156,738 | 48,662 | 17,720 | 9,586 | 47,696 | 280,402 |
| Total | \$ 253,696 | \$ 68,515 | \$ 53,417 | \$ 85,782 | \$ 345,792 | \$ 807,202 |

**Primary Government Administered Multiple-Employer Cost Sharing Plans
Deferred Inflows of Resources
As of June 30, 2021
(In Thousands)**

| Description | SERF | CERF | GERF | P&FF | TRF | Total |
|---|--------------|------------|-----------|-----------|------------|--------------|
| Difference Between Expected and Actual Experience | \$ 10,258 | \$ 1,398 | \$ 762 | \$ 3,054 | \$ 11,458 | \$ 26,930 |
| Changes in Assumption | 2,255,214 | 289,622 | 7,467 | 40,108 | 634,593 | 3,227,004 |
| Change in Proportionate Share of Contributions | — | 174 | 9,685 | 7,444 | 109,648 | 126,951 |
| Total | \$ 2,265,472 | \$ 291,194 | \$ 17,914 | \$ 50,606 | \$ 755,699 | \$ 3,380,885 |

**Primary Government Administered Multiple-Employer Cost Sharing Plans
Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense
or a Reduction in Net Pension Liability
As of June 30, 2021
(In Thousands)**

| Description | SERF | CERF | GERF | P&FF | TRF | Total |
|--|----------------|--------------|-----------|-----------|--------------|----------------|
| 2022 | \$ (1,491,360) | \$ (173,547) | \$ 15,876 | \$ 9,276 | \$ (31,437) | \$ (1,671,192) |
| 2023 | (681,368) | (118,613) | (6,247) | (3,576) | (254,205) | (1,064,009) |
| 2024 | 8,234 | 11,430 | 3,241 | 18,332 | (171,678) | (130,441) |
| 2025 | (4,020) | 9,389 | 4,913 | 2,162 | 3,870 | 16,314 |
| 2026 | — | — | — | (604) | (4,153) | (4,757) |
| Net Pension Expense | \$ (2,168,514) | \$ (271,341) | \$ 17,783 | \$ 25,590 | \$ (457,603) | \$ (2,854,085) |
| Deferred Outflow of Resources as a Reduction to Net Pension Liability | 156,738 | 48,662 | 17,720 | 9,586 | 47,696 | 280,402 |
| Net Deferred Outflows (Inflows) of Resources | \$ (2,011,776) | \$ (222,679) | \$ 35,503 | \$ 35,176 | \$ (409,907) | \$ (2,573,683) |

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan

The St. Paul Teachers' Retirement Fund (SPTRF) covers teachers and other related professionals employed by St. Paul Public Schools, St. Paul College, charter schools within the City of St. Paul, and SPTRF staff. The plan provides retirement, survivor, and disability benefits.

| | |
|---------------------|--|
| Membership Types | Basic membership: Participants who are not covered by the Social Security Act. Coordinated membership: Participants who are covered by the Social Security Act. |
|---------------------|--|

Benefit Formula Members hired before July 1, 1989: Tier 1 or Tier 2 formula, whichever is greater. Members hired on or after July 1, 1989: Tier 2 formula.

Tier 1 Formula: Coordinated members receive 1.2 percent of the high-five average salary for each of the first 10 years of allowable service prior to July 1, 2015, and 1.4 percent for any of the first 10 years after that date. For allowable years of service after the first ten years, Coordinated members receive 1.7 percent for each year prior to July 1, 2015 and 1.9 percent for years after that date.

Basic members receive 2.0 percent of the high-five average salary for all years of allowable service.

The Tier 1 formula also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90 or greater).

Tier 2 Formula: Coordinated members receive 1.7 percent of the high-five average salary for all years of allowable service prior to July 1, 2015 and 1.9 percent for years thereafter.

Basic members receive 2.5 percent of the high-five average salary for all years of allowable service.

The Tier 2 formula provides full benefits at normal retirement age. Not eligible for benefits under the Rule of 90.

Annual Benefit Increase No benefit increases through December 31, 2020, and 1.0 percent thereafter. Benefit increases for retirements on or after January 1, 2024 are delayed until the retiree reaches normal retirement age.

**Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Statutory Contribution Rates
(In Thousands)**

| Description | SPTRF ⁽¹⁾ |
|--|----------------------|
| Minnesota Statutory Authority | 354A.12 |
| Required Contribution Rate: | |
| Active Members | 7.5-10.0% |
| Employer(s) | 8.38-11.88% |
| Primary Government as Non-Employer Contributing Entity - Statutory Requirement | \$ 15,664 |
| Primary Government Contributions - Reporting Period | \$ 15,691 |

⁽¹⁾ An additional contribution of 3.64 and 3.84 percent of salary for basic and coordinated members, respectively, of St. Paul Teachers Retirement Fund Association brings the top of the Employer contribution to 15.52 percent. Member contribution rates increase by 0.25 percent effective fiscal year 2023 and Employer contribution rates increase by 0.62 percent over the next three years.

**Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Summary of Pension Amounts
As of June 30, 2021
(In Thousands)**

| Description | SPTRF ⁽¹⁾ |
|---|----------------------|
| Primary Government's Proportionate Share of the Net Pension Liability as an: | |
| Employer | \$ 503 |
| Non-Employer Contributing Entity | 207,016 |
| Total | <u>\$ 207,519</u> |
| Primary Government's Total Proportionate Share Percentage of the Net Pension Liability as of: | |
| Current Measurement Date | 31.75% |
| Prior Measurement Date | 33.77% |
| Deferred Outflows of Resources | \$ 53,183 |
| Deferred Inflows of Resources | \$ 17,006 |
| Net Pension Expense | \$ 29,431 |

⁽¹⁾ Proportionate share was determined based on the Primary Government's percentage of employer and non-employer contributing entity contributions into the plan.

**Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Actuarial Assumptions**

| Description | SPTRF ⁽¹⁾ |
|--|----------------------|
| Actuarial Valuation/Measurement Date | June 30, 2020 |
| Long-Term Expected Rate | 7.50% |
| 20 Year Municipal Bond Rate ⁽²⁾ | 2.45% |
| Experience Study Dates | 2011-2016 |
| Inflation | 2.50% |
| Salary Increases | 3.00-9.00% |
| Payroll Growth | 3.00% |

⁽¹⁾ For mortality rate assumptions, the RP-2014 Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2019 for the current measurement period and Scale MP-2018 for the prior measurement period. There are various adjustments to match experience.

⁽²⁾ Source: Fidelity Index 20-Year Municipal GO AA Index.

**Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Deferred Outflows of Resources
As of June 30, 2021
(In Thousands)**

| Description | SPTRF |
|--|------------------|
| Changes in Assumption | \$ 9,411 |
| Net Difference Between Projected and Actual Earnings on Investment | 16,709 |
| Change in Proportionate Share of Contributions | 11,372 |
| Contributions Subsequent to the Measurement Date | 15,691 |
| Total | <u>\$ 53,183</u> |

**Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Deferred Inflows of Resources
As of June 30, 2021
(In Thousands)**

| Description | SPTRF |
|---|------------------|
| Difference Between Expected and Actual Experience | \$ 6,921 |
| Changes in Assumption | 1,507 |
| Change in Proportionate Share of Contributions | 8,578 |
| Total | <u>\$ 17,006</u> |

**Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense
or a Reduction in Net Pension Liability
As of June 30, 2021
(In Thousands)**

| Description | SPTRF |
|---|------------------|
| 2022 | \$ 12,162 |
| 2023 | (1,992) |
| 2024 | 5,908 |
| 2025 | 4,408 |
| Net Pension Expense | \$ 20,486 |
| Deferred Outflow of Resources as a Reduction to Net Pension Liability | 15,691 |
| Net Deferred Outflows (Inflows) of Resources | <u>\$ 36,177</u> |

Primary Government Administered Multiple-Employer Agent Plan

The Volunteer Firefighter Retirement Fund (VFRF) was established on January 1, 2010, as a lump-sum defined benefit plan largely funded by fire state aid and covers volunteer firefighters. Members do not contribute to the plan. Employer contributions are determined annually. There are 187 employers participating in this plan. The plan provides retirement and survivor benefits only. If fire state aid plus investment income are not expected to cover the normal cost of benefits during the next calendar year, an employer contribution is calculated and payable by the end of the next calendar year. Benefits are determined by employee years of service multiplied by a benefit level chosen by the entity sponsoring the fire department from possible levels ranging from \$500 to \$10,000 per year of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent. The plan is established and administered in accordance with Minnesota Statutes 353G. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

Primary Government Administered Single-Employer Plans

The Judges Retirement Fund (JRF) covers judges of the Supreme Court, appellate, and district courts. The plan provides retirement, survivor, and disability benefits.

Benefit Formula Judges appointed or elected before July 1, 2013: 2.7 percent of the high-five average salary for each year of allowable service prior to July 1, 1980, and 3.2 percent for each year thereafter, up to 76.8 percent.

Judges appointed or elected on or after July 1, 2013: 2.5 percent of the high-five average salary for each year of allowable service. There is no maximum benefit.

Annual Benefit Increase 1.75 percent, if the plan is funded at least 70 percent for two consecutive years, the increase changes to 2.0 percent, and if the plan is funded at least 90 percent for two consecutive years, the increase changes to 2.5 percent. The benefit increase of 1.75 percent is projected through 2041, 2.0 percent through 2058, and 2.5 percent thereafter.

For the prior measurement period the benefit increase of 1.75 percent was projected through 2039, 2.0 percent through 2056, and 2.5 percent thereafter. For the fiscal year 2022 measurement period, the benefit increase will change to 1.5 percent starting January 1, 2022.

The Legislators Retirement Fund (LRF) covers constitutional officers and certain members of the state's House of Representatives and Senate who were first elected prior to July 1, 1997 and chose to retain coverage under this plan. The plan provides retirement and survivor benefits. This plan is closed to new entrants.

Benefit Formula 5.0 percent of high-five average salary for the first eight years of service prior to January 1, 1979, then 2.5 percent for subsequent years.

Annual Benefit Increase 1.0 percent through December 31, 2023, and 1.5 percent thereafter. Benefit increases for retirements on or after January 1, 2024 are delayed until the retiree reaches normal retirement age.

The State Patrol Retirement Fund (SPRF) covers state troopers, conservation officers, and certain crime bureau and gambling enforcement agents. The plan provides retirement, survivor, and disability benefits.

Benefit Formula 3.0 percent of the high-five average salary for each year of allowable service up to 33 years. Members with at least 28 years of service as of July 1, 2013 are not subject to this limit.

Annual Benefit Increase 1.0 percent fixed rate.

**Primary Government Administered Single-Employer Plans
Statutory Contribution Rates
(In Thousands)**

| Description | JRF | LRF | SPRF |
|--|----------------------|--------------------|----------------------|
| Minnesota Statutory Authority | 490.123 | 3A.03 | 352B.02 |
| Required Contribution Rate: | | | |
| Active Members | 7.0-9.0% | 9.0% | 15.4% |
| Employer | 22.5% ⁽³⁾ | N/A ⁽¹⁾ | 23.1% ⁽²⁾ |
| Primary Government Contributions – Reporting Period | \$ 17,915 | \$ 8,639 | \$ 24,809 |

⁽¹⁾ Employer contributions are funded on a pay-as-you-go basis.

⁽²⁾ Member contribution rate increased by 0.5 percent in fiscal year 2021. Additional supplemental employer contributions of 5.0 percent bring the top of the Employer contribution range to 28.1 percent. Additional supplemental employer contributions increase to 7.0 percent of salary annually effective for fiscal year 2022. The 7.0 percent will remain in effect until plan is 100 percent funded.

⁽³⁾ Employer contributions include an additional \$6 million each year until the earlier of the plan is fully funded or July 1, 2048.

**Primary Government Administered Single-Employer Plans
Membership Statistics**

| Description | JRF | LRF | SPRF |
|--|-----|-----|-------|
| Members (or their beneficiaries) | | | |
| Currently Receiving Benefits | 390 | 360 | 1,107 |
| Members Entitled to, but not Receiving Benefits | 17 | 31 | 63 |
| Active Members | 322 | 17 | 937 |

**Primary Government Administered Single-Employer Plans
Summary of Pension Amounts
As of June 30, 2021
(In Thousands)**

| Description | JRF | LRF | SPRF | Total |
|--------------------------------|------------|------------|------------|------------|
| Net Pension Liability | \$ 185,923 | \$ 146,789 | \$ 231,455 | \$ 564,167 |
| Deferred Outflows of Resources | 22,340 | 8,639 | 77,222 | 108,201 |
| Deferred Inflows of Resources | 1,633 | — | 110,148 | 111,781 |
| Net Pension Expense | 5,303 | 15,410 | 26,067 | 46,780 |

**Primary Government Administered Single-Employer Plans
Actuarial Assumptions**

| Description | JRF ⁽¹⁾⁽³⁾ | LRF ⁽¹⁾ | SPRF ⁽¹⁾⁽³⁾⁽⁴⁾ |
|--|-----------------------|--------------------|---------------------------|
| Actuarial Valuation / Measurement Date | June 30, 2020 | June 30, 2020 | June 30, 2020 |
| Long-Term Expected Rate | 7.50% | 7.50% | 7.50% |
| 20 Year Municipal Bond Rate ⁽²⁾ | 2.45% | 2.45% | 2.45% |
| Experience Study Dates | 2011-2015 | N/A | 2011-2015 |
| Inflation | 2.50% | 2.50% | 2.50% |
| Salary Increases | 2.50% | 4.50% | Service Related Rates |
| Payroll Growth | 2.50% | N/A | 3.25% |

⁽¹⁾ For mortality rate assumptions, the RP-2014 Mortality table for males and females was used and adjusted for mortality improvements based on Scale MP-2015. There are various adjustments in each plan to match experience. In fiscal year 2022, JRF and SPRF will use the Pub-2010 General Mortality table and will adjust for mortality improvements based on Scale MP-2019.

⁽²⁾ Source: Fidelity Index 20-Year Municipal GO AA Index.

⁽³⁾ The inflation assumption for fiscal year 2022 will change to 2.25 percent for JRF and SPRF.

⁽⁴⁾ The payroll growth assumption for fiscal year 2022 will change to 3.00 percent for SPRF.

**Primary Government Administered Single-Employer Plans
Schedule of Net Pension Liability
As of June 30, 2021
(In Thousands)**

| Description | JRF | LRF | SPRF | Total |
|--|------------|------------|------------|--------------|
| Total Pension Liability (TPL): | | | | |
| Service Cost | \$ 9,897 | \$ 527 | \$ 21,122 | \$ 31,546 |
| Interest on the Total Pension Liability | 28,721 | 4,258 | 70,465 | 103,444 |
| Difference Between Expected and Actual Experience of the Total Pension Liability | (802) | 645 | (535) | (692) |
| Changes in Assumptions | — | 9,986 | — | 9,986 |
| Benefit Payments, Including Refunds of Member Contributions | (26,302) | (8,812) | (61,971) | (97,085) |
| Net Change in Total Pension Liability | \$ 11,514 | \$ 6,604 | \$ 29,081 | \$ 47,199 |
| Total Pension Liability, Beginning | \$ 391,146 | \$ 140,185 | \$ 959,964 | \$ 1,491,295 |
| Total Pension Liability, Ending | \$ 402,660 | \$ 146,789 | \$ 989,045 | \$ 1,538,494 |
| Fiduciary Net Position (FNP): | | | | |
| Contributions – Employer | \$ 17,766 | \$ 8,764 | \$ 22,975 | \$ 49,505 |
| Contributions – Member | 4,168 | 87 | 12,595 | 16,850 |
| Net Investment Income | 8,955 | — | 31,073 | 40,028 |
| Benefit Payments, Including Refunds of Member Contributions | (26,302) | (8,812) | (61,971) | (97,085) |
| Pension Plan Administrative Expenses | (112) | (39) | (224) | (375) |
| Other Changes | — | — | (2) | (2) |
| Net Change in Plan Fiduciary Net Position | \$ 4,475 | \$ — | \$ 4,446 | \$ 8,921 |
| Plan Fiduciary Net Position, Beginning | \$ 212,262 | \$ — | \$ 753,144 | \$ 965,406 |
| Plan Fiduciary Net Position, Ending | \$ 216,737 | \$ — | \$ 757,590 | \$ 974,327 |
| Net Pension Liability (NPL) | \$ 185,923 | \$ 146,789 | \$ 231,455 | \$ 564,167 |

**Primary Government Administered Single-Employer Plans
Deferred Outflows of Resources
As of June 30, 2021
(In Thousands)**

| Description | JRF | LRF | SPRF | Total |
|--|------------------|-----------------|------------------|-------------------|
| Difference Between Expected and Actual Experience | | | | |
| | \$ 1,051 | \$ — | \$ 1,837 | \$ 2,888 |
| Changes in Assumption | | | | |
| | 2,331 | — | 47,264 | 49,595 |
| Net Difference Between Projected and Actual Earnings on Investment Contributions Subsequent to the Measurement Date | | | | |
| | 1,043 | — | 3,312 | 4,355 |
| | 17,915 | 8,639 | 24,809 | 51,363 |
| Total | <u>\$ 22,340</u> | <u>\$ 8,639</u> | <u>\$ 77,222</u> | <u>\$ 108,201</u> |

**Primary Government Administered Single-Employer Plans
Deferred Inflows of Resources
As of June 30, 2021
(In Thousands)**

| Description | JRF | SPRF | Total |
|--|-----------------|-------------------|-------------------|
| Difference Between Expected and Actual Experience | | | |
| | \$ 1,633 | \$ 9,138 | \$ 10,771 |
| Changes in Assumption | | | |
| | — | 101,010 | 101,010 |
| Total | <u>\$ 1,633</u> | <u>\$ 110,148</u> | <u>\$ 111,781</u> |

**Primary Government Administered Single-Employer Plans
Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense or a Reduction in Net Pension Liability
As of June 30, 2021
(In Thousands)**

| Description | JRF | LRF | SPRF | Total |
|---|------------------|-----------------|--------------------|-------------------|
| 2022 | \$ (510) | \$ — | \$ (5,907) | \$ (6,417) |
| 2023 | 646 | — | (40,066) | (39,420) |
| 2024 | 1,458 | — | (16,922) | (15,464) |
| 2025 | 1,198 | — | 5,250 | 6,448 |
| 2026 | — | — | (90) | (90) |
| Net Pension Expense | \$ 2,792 | \$ — | \$ (57,735) | \$ (54,943) |
| Deferred Outflow of Resources as a Reduction to Net Pension Liability | 17,915 | 8,639 | 24,809 | 51,363 |
| Net Deferred Outflows (Inflows) of Resources | <u>\$ 20,707</u> | <u>\$ 8,639</u> | <u>\$ (32,926)</u> | <u>\$ (3,580)</u> |

Summary of Defined Benefit Plans

Summary of Defined Benefit Plans As of June 30, 2021 (In Thousands)

| Description | Primary Government Administered Multiple-Employer Cost Sharing Plans | Non-Primary Government Administered Multiple-Employer Cost Sharing Plan | Primary Government Administered Single-Employer Plans | Total |
|--------------------------------|--|---|---|--------------|
| Net Pension Liability | \$ 2,467,710 | \$ 207,519 | \$ 564,167 | \$ 3,239,396 |
| Deferred Outflows of Resources | 807,202 | 53,183 | 108,201 | 968,586 |
| Deferred Inflows of Resources | 3,380,885 | 17,006 | 111,781 | 3,509,672 |
| Net Pension Expense | 419,469 | 29,431 | 46,780 | 495,680 |

The State Board of Investment, which manages the investments of MSRS, PERA, and TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method using both long-term historical returns and long-term capital market expectations from a number of investments management and consulting organizations. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates, and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

Primary Government Administered Plans Asset Class Target Allocation and Expected Return As of June 30, 2021

| Asset Class | Target Allocation | Long-Term Expected Rate of Return (Geometric Mean) |
|----------------------|------------------------|--|
| Domestic Stocks | 35.50 % ⁽¹⁾ | 5.10 % |
| International Stocks | 17.50 % ⁽²⁾ | 5.30 % |
| Bonds | 20.00 % | 0.75 % |
| Alternative Assets | 25.00 % | 5.90 % |
| Unallocated Cash | 2.00 % ⁽³⁾ | 0.00 % |
| Total | <u>100.00 %</u> | |

⁽¹⁾ The target allocation for fiscal year 2022 will change to 33.50 percent for domestic stocks.

⁽²⁾ The target allocation for fiscal year 2022 will change to 16.50 percent for international stocks.

⁽³⁾ The target allocation for fiscal year 2022 will change to 5.00 percent for unallocated cash.

The following table presents the net pension liability for each defined benefit plan with a primary government proportionate share of the net pension liability, calculated using the corresponding discount rate as well as what the net pension liability would be if the rate were one percentage point higher or lower.

Primary Government Proportionate Share Sensitivity of the Net Pension Liability to Changes in the Discount Rate As of June 30, 2021 (In Thousands)

| Plan | With a 1% Decrease | | Current Discount Rate | | With a 1% Increase | |
|-----------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|
| | Rate | NPL ⁽¹⁾ | Rate | NPL ⁽¹⁾ | Rate | NPL ⁽¹⁾ |
| SERF ⁽⁴⁾ | 6.50 % | \$ 2,371,234 | 7.50 % | \$ 998,968 | 8.50 % | \$ (143,085) |
| CERF ⁽⁴⁾ | 6.50 % | 682,316 | 7.50 % | 447,093 | 8.50 % | 255,125 |
| GERF ⁽⁴⁾ | 6.50 % | 322,773 | 7.50 % | 201,399 | 8.50 % | 101,275 |
| P&FF ⁽⁴⁾ | 6.50 % | 128,181 | 7.50 % | 64,311 | 8.50 % | 11,470 |
| TRF ⁽⁴⁾ | 6.50 % | 1,157,335 | 7.50 % | 755,939 | 8.50 % | 425,209 |
| SPTRF | 6.50 % | 271,169 | 7.50 % | 207,519 | 8.50 % | 154,784 |
| JRF ⁽⁴⁾ | 6.50 % | 226,631 | 7.50 % | 185,923 | 8.50 % | 151,040 |
| LRF ⁽³⁾⁽⁴⁾ | 1.45 % | 163,912 | 2.45 % ⁽²⁾ | 146,789 | 3.45 % | 132,500 |
| SPRF ⁽⁴⁾ | 6.50 % | 351,715 | 7.50 % | 231,455 | 8.50 % | 131,896 |

⁽¹⁾ Net Pension Liability (Asset).

⁽²⁾ LRF: The municipal bond rate was used for all years.

⁽³⁾ The discount rate changed from 3.13 percent for LRF.

⁽⁴⁾ The discount rate for fiscal year 2022 will change to 6.50 percent for SERF, CERF, GERF, P&FF, JRF, and SPRF, 7.00 percent for TRF, and 1.92 percent for LRF.

Defined Contribution Plans

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds. The benefits received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer or solely with employee contributions, depending on the fund. Accordingly, there is no unfunded liability for these funds; therefore, there is no actuarial accrued benefit liability or actuarially required contribution.

Plan Descriptions and Contribution Information

The Hennepin County Supplemental Retirement Fund (HCSRF), authorized by Minnesota Statutes 383B.46 to 383B.52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employer (Hennepin County and Hennepin Healthcare System) and employee contribution rate is 1.0 percent of the employee's salary. Benefits are the participant's account balance, which includes investment earnings/losses.

Health Care Savings Fund (HCSF), authorized by Minnesota Statutes 352.98, creates a post-retirement health care savings plan by which public employees may save to cover post-retirement health care costs. Contributions to the plan are defined in a personnel policy or in a collective bargaining agreement. Contributions to the plan, by or on behalf of an employee, are held in trust for reimbursement of employee and dependent health-related expenses following termination of public service. The current plan is based on state employee contributions without any matching provision by the state. A plan participant may

request reimbursement until funds accumulated in the participant's account are exhausted. Benefits are the participant's account balance, which includes investment gains/losses and must be used for qualifying health-related expenses. The employee contributions were \$186,610,000 for the fiscal year ended June 30, 2021.

The Unclassified Employees Retirement Fund (UERF), authorized by Minnesota Statutes 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state, specified employees of various statutorily designated entities, or judges who exceed the maximum benefit cap under the Judges Retirement Fund (pension trust fund). Statutory contribution rates are 6.0 percent of employee's salary for employee and 6.25 percent for the employer. However, contribution rates for participating judges are 8.0 percent of employee's salary with no state contribution. Benefits are either an annuity based on age, value of the participant's account, and the effective actuarial assumptions, or the participant's account balance withdrawals.

The Minnesota Deferred Compensation Fund (DCPF) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes 352.965. The plan is primarily composed of employee contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan. The employee contributions were \$323,824,000 for the fiscal year ended June 30, 2021.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. The statutory contribution rate is 5.0 percent of employee's salary for both the employee and employer (local units of government, elected officials, and physicians). For other participants, the contribution rate is determined by the employer with a fixed percentage for the employee. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes 354B and 354C, covers unclassified teachers, librarians, administrators, and certain other staff members. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and administrators, participate in the IRAP. The employer and employee statutory contribution rates are 6.0 and 5.80 percent, respectively. Member contribution rates increase by 1.95 percent over the next three years. For the SRP, the statutorily required contribution rate is 5.0 percent of salary for both the employer and employees with contribution maximums between \$1,700 and \$2,700 depending on the member group. Minnesota Statutes allow additional employer and employee contributions under specific circumstances.

Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) is the administrative agent for the State Colleges and Universities Retirement Fund. Separately-issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

**Primary Government
Defined Contribution Plans Contributions
As of June 30, 2021
(In Thousands)**

| Description | HCSRF | UERF | DCF | CURF |
|----------------------------------|--------------|-----------------|-----------------|------------------|
| Member Contributions | \$ 66 | \$ 7,455 | \$ 2,066 | \$ 48,079 |
| Employer Contributions: | | | | |
| Primary Government Contributions | \$ — | \$ 7,029 | \$ — | \$ 45,960 |
| Other Employer Contributions | 66 | 428 | 2,133 | — |
| Total Employer Contributions | <u>\$ 66</u> | <u>\$ 7,457</u> | <u>\$ 2,133</u> | <u>\$ 45,960</u> |

Investment Trust Funds

The Supplemental Retirement and the Investment Trust funds (investment trust funds) are administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address). These funds are investment pools for external participants.

Component Units

The following component units are participants in the State Employees Retirement Fund (SERF), Police and Fire Fund (P&FF), and the Unclassified Employees Retirement Funds (UERF):

- Housing Finance Agency (HFA)
- Metropolitan Council (MC)
- University of Minnesota (U of M)
- Minnesota Sports Facilities Authority (MSFA)
- Office of Higher Education (OHE)
- Public Facilities Authority (PFA)

**Component Units
Summary of Pension Amounts
State Employee Retirement Fund
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Description | Major Component Units | | | Non-Major Component Units | | | Total |
|--|-----------------------|------------|------------|---------------------------|----------|--------|------------|
| | HFA | MC | U of M | MSFA | OHE | PFA | |
| Proportionate Share of the Net Pension Liability | \$ 8,396 | \$ 124,063 | \$ 185,543 | \$ 159 | \$ 1,778 | \$ 877 | \$ 320,816 |
| Deferred Outflows of Resources | 2,132 | 16,603 | 39,284 | 132 | 452 | 224 | 58,827 |
| Deferred Inflows of Resources | 19,039 | 282,320 | 448,101 | 609 | 4,032 | 1,990 | 756,091 |
| Net Pension Expense (Income) | 2,124 | 31,036 | 31,724 | (154) | 449 | 221 | 65,400 |

**Major Component Units
Summary of Pension Amounts
Police and Fire Fund
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Description | MC | U of M | Total |
|--|-----------|----------|-----------|
| Proportionate Share of the Net Pension Liability | \$ 16,686 | \$ 8,371 | \$ 25,057 |
| Deferred Outflows of Resources | 9,637 | 12,351 | 21,988 |
| Deferred Inflows of Resources | 9,332 | 12,839 | 22,171 |
| Net Pension Expense | 2,671 | 1,059 | 3,730 |

Note 9 – Termination and Postemployment Benefits

Primary Government – Termination Benefits

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. A liability and expense for voluntary termination benefits are recognized when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits are recognized when a plan of termination has been approved, the plan has been communicated to the employees, and the amount can be estimated.

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Service Faculty contracts. Faculty members who meet a combination of age and years of service plus certain eligibility requirements are eligible to receive an early retirement incentive cash payment based on base salary plus health insurance paid for one year after separation or up to age 65, depending on the contract. Approximately 56 former faculty members and staff currently receive this benefit. The cost of the benefits was \$2,152,000 during fiscal year ended June 30, 2021, with a remaining liability as of June 30, 2021, of \$2,367,000.

Primary Government Single Employer – Postemployment Benefits Other Than Pensions

Other postemployment benefits (OPEB) are available to state employees and their dependents through a single-employer defined benefit healthcare plan, as allowed by Minnesota Statutes 43A.27, Subdivision 3, and Minnesota Statutes 471.61, Subdivision 2a, and required under the terms of selected employment contracts. All pre-age-65 state retirees with at least 5 years of allowable pension service who are entitled at the time of retirement to receive an annuity under the state retirement program are eligible to participate in the state's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100 percent of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active state employees, resulting in an implicit rate subsidy.

The state also subsidizes the healthcare and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. Coverage and rate subsidies end at the retiree's attainment of age 65.

The state does not issue a separate financial report for its OPEB as the state does not fund an OPEB plan and operates on a pay-as-you-go basis. The amount paid for OPEB benefits during fiscal year 2021 was \$34,148,000.

**Primary Government Single-Employer Plan
Employee Statistics**

| Description | Employees |
|--|-----------|
| Inactive Employees (or their beneficiaries) Currently Receiving Benefits | 3,559 |
| Active Employees | 47,993 |

**Primary Government Single-Employer Plan
Summary of OPEB Amounts
As of June 30, 2021
(In Thousands)**

| Description | Amount ⁽¹⁾ |
|--------------------------------|-----------------------|
| Total OPEB Liability | \$ 687,901 |
| Deferred Outflows of Resources | 123,681 |
| Deferred Inflows of Resources | 121,161 |
| Total OPEB Expense | 60,554 |

⁽¹⁾ Amounts represent the primary government's total proportionate share of 99.7 percent. The remaining 0.3 percent represents a discretely presented component unit's proportionate share.

**Single-Employer Plan
Actuarial Assumptions**

| Description | OPEB Plan |
|---|------------------------------|
| Actuarial Valuation ⁽¹⁾ | July 1, 2020 |
| Measurement Date ⁽¹⁾ | June 30, 2020 |
| Discount Rate: 20 Year Municipal Bond Rate ⁽²⁾ | 2.21% |
| Healthcare Cost Trend Rate | 7.5% reduced to 3.8% by 2071 |
| Experience Study Dates | 2015 - 2019 |
| Inflation | 2.25% |
| Salary Increases | 3.00% |

⁽¹⁾ No significant events or material changes in benefit provisions occurred between the actuarial valuation date and the measurement date that required an adjustment to roll-forward of the Total OPEB Liability.

⁽²⁾ Source: Bond Buyer 20-year General Obligation Index.

The mortality rate assumptions use the Pub-2010 General Employee Headcount-Weighted Mortality Table with mortality improvement Scale MP-2020 as applicable to the employee group covered. For the prior measurement period, the mortality rate assumptions use the RP-2014 employee generational mortality table projected with mortality improvement Scale MP-2018.

**Single-Employer Plan
Schedule of Total OPEB Liability
As of June 30, 2021
(In Thousands)**

| Description | Primary Government's Share ⁽¹⁾ | Component Unit's Share ⁽¹⁾ | Plan Total |
|--|---|---------------------------------------|-------------------|
| Total OPEB Liability: | | | |
| Service Cost | \$ 46,784 | \$ (282) | \$ 46,502 |
| Interest | 23,067 | 61 | 23,128 |
| Differences between Expected and Actual Experience | (76,119) | (201) | (76,320) |
| Changes in Assumptions or Other Inputs | 100,857 | 266 | 101,123 |
| Benefit Payments | (37,655) | (99) | (37,754) |
| Net Changes in Total OPEB Liability | \$ 56,934 | \$ (255) | \$ 56,679 |
| Total OPEB Liability, Beginning | 630,967 | 2,067 | 633,034 |
| Total OPEB Liability, Ending | <u>\$ 687,901</u> | <u>\$ 1,812</u> | <u>\$ 689,713</u> |

⁽¹⁾ The primary government's total proportionate share is 99.7 percent and the component unit's proportionate share is 0.3 percent of the state's single employer defined benefit OPEB plan.

**Primary Government Single-Employer Plan
Deferred Outflows and Deferred Inflows of Resources
Related to OPEB
As of June 30, 2021
(In Thousands)**

| Description | Deferred Outflows of Resources ⁽¹⁾ | Deferred Inflows of Resources ⁽¹⁾ |
|---|---|--|
| Difference between Expected and Actual Experience | \$ — | \$ 101,517 |
| Changes of Assumption | 89,533 | 19,644 |
| Transactions Subsequent to the Measurement Date | 34,148 | NA |
| Total | <u>\$ 123,681</u> | <u>\$ 121,161</u> |

⁽¹⁾ Amounts represent the primary government's total proportionate share of 99.7 percent. The remaining 0.3 percent represents a discretely presented component unit's proportionate share.

**Primary Government Single-Employer Plan
Net Deferred Outflows (Inflows) of Resources
Recognized as OPEB Expense or a Reduction to the Total OPEB Liability
As of June 30, 2021
(In Thousands)**

| Description | Amount ⁽¹⁾ |
|--|-----------------------|
| 2022 | \$ (8,983) |
| 2023 | (8,983) |
| 2024 | (9,364) |
| 2025 | (6,208) |
| 2026 | (73) |
| Thereafter | 1,983 |
| Net OPEB Expense | \$ (31,628) |
| Deferred Outflow of Resources as a Reduction of the Total OPEB Liability | 34,148 |
| Net Deferred Outflows (Inflows) of Resources | \$ 2,520 |

⁽¹⁾ Amounts represent the primary government's total proportionate share of 99.7 percent. The remaining 0.3 percent represents a discretely presented component unit's proportionate share.

The following tables present the total OPEB liability (TOPEBL) for the defined benefit plan for the primary government's proportionate share of the TOPEBL, calculated using the corresponding discount rate and healthcare trend rate as well as what the TOPEBL would be if the rates were one percentage point higher or lower.

**Primary Government
Sensitivity of the Total OPEB liability to Changes in the Discount Rate
As of June 30, 2021
(In Thousands)**

| With a 1% Decrease | | Current Discount Rate | | With a 1% Increase | |
|--------------------|------------|-----------------------|------------|--------------------|------------|
| Rate | TOPEBL | Rate ⁽¹⁾ | TOPEBL | Rate | TOPEBL |
| 1.21% | \$ 738,693 | 2.21% | \$ 687,901 | 3.21% | \$ 639,852 |

⁽¹⁾ The discount rate changed from 3.5 percent.

**Sensitivity of the Total OPEB liability to Changes in the Healthcare Trend Rates
As of June 30, 2021
(In Thousands)**

| With a 1% Decrease | | Current Healthcare Trend Rate | | With a 1% Increase | |
|--------------------|------------|-------------------------------|------------|--------------------|------------|
| Rate | TOPEBL | Rate | TOPEBL | Rate | TOPEBL |
| 2.8% | \$ 621,775 | 3.8% | \$ 687,901 | 4.8% | \$ 765,869 |

Component Units – Postemployment Benefits Other Than Pensions

Housing Finance Agency (HFA) and the Office of Higher Education (OHE) participate in the primary government's single-employer defined benefit OPEB plan.

The Metropolitan Council (MC) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care and life insurance plan to eligible retirees, their spouses, and dependents. The funding for MC does not meet the requirements of GASB Statement 75, for OPEB. However, MC separately invested \$315 million as of December 31, 2020 for this purpose.

The University of Minnesota (U of M) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible employees, retirees, their spouses, and dependents, and an academic disability plan for faculty and academic professional and administrative employees. The U of M does not fund an OPEB plan and operates on a pay-as-you-go basis.

**Component Units
Summary of OPEB Amounts
State OPEB Plan
As of June 30, 2021
(In Thousands)**

| Description | Major Component Unit | | Non-Major Component Unit | | Total |
|--|----------------------|-------|--------------------------|----------|-------|
| | HFA | OHE | OHE | | |
| Proportionate Share Total OPEB Liability | \$ 1,793 | \$ 19 | \$ 19 | \$ 1,812 | |
| Deferred Outflows of Resources | 302 | 3 | 3 | 305 | |
| Deferred Inflows of Resources | 290 | 4 | 4 | 294 | |
| Total OPEB Expense | 132 | (67) | (67) | 65 | |

**Major Component Units
Summary of OPEB Amounts
Other Plans
As of December 31, 2020 or June 30, 2021, as applicable
(In Thousands)**

| Description | Major Component Units | | Total |
|--|-----------------------|-----------|------------|
| | MC | U of M | |
| Proportionate Share Total OPEB Liability | \$ 361,459 | \$ 54,111 | \$ 415,570 |
| Deferred Outflows of Resources | 62,482 | 10,724 | 73,206 |
| Deferred Inflows of Resources | 12,795 | 258 | 13,053 |
| Total OPEB Expense | 27,304 | 7,589 | 34,893 |

Note 10 – Long-Term Commitments

Primary Government

Governmental Funds

Long-term commitments consist of grant agreements, construction projects, and other contracts. A portion of these commitments will be funded by current reserves, and these amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance amounts. Resources provided by future bond proceeds, fuel taxes, motor vehicle registration taxes, and federal grants will fund the remaining commitments. Governmental funds' encumbrances, both current and long-term, as of June 30, 2021, were as follows:

| Primary Government Encumbrances As of June 30, 2021 (In Thousands) | |
|---|---------------------|
| Description | Amount |
| General Fund | \$ 552,950 |
| Non-Major Governmental Funds | 2,150,754 |
| Total Encumbrances | \$ 2,703,704 |

Enterprise Fund - Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities had commitments of \$75,073,000 for construction and renovation of college and university facilities and replacement of legacy ERP system as of June 30, 2021.

Component Units

As of June 30, 2021, the Housing Finance Agency had committed approximately \$841,871,000 for the purchase or origination of future loans or other housing assistance.

The Metropolitan Council entered into contracts for various purposes such as transit services and construction projects. As of December 31, 2020, unpaid commitments for Metro Transit Bus services were approximately \$223,343,000. Future commitments for Metro Transit Light Rail were approximately \$829,602,000, while future commitments for Metro Transit Commuter Rail were approximately \$4,101,000. Future commitments for Regional Transit and Environmental Services were approximately \$22,638,000 and \$71,222,000, respectively. Finally, amounts authorized and initiated in the calendar year 2020 budget but not completely expended in calendar year 2020 were \$525,000.

The University of Minnesota had construction projects in progress with an estimated completion cost of \$200,038,000 as of June 30, 2021. These costs will be funded from plant account assets and state appropriations.

As of June 30, 2021, the Public Facilities Authority (PFA) had committed approximately \$185,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed \$76,300,000 for grants.

As of June 30, 2021, the Minnesota Sports Facilities Authority had committed approximately \$843,000 for stadium and stadium infrastructure construction projects.

Note 11 – Operating Lease Agreements

Operating Leases

The state and its component units are committed under various leases primarily for building and office space. For accounting purposes, these leases are considered to be operating leases.

Lease expenditures/expenses for the fiscal year ended June 30, 2021, totaled approximately \$95,512,000 and \$27,635,000 for the primary government and component units, respectively. Lease expenses for the year ended December 31, 2020, totaled approximately \$2,311,000 for component units.

Primary Government and Component Units Future Minimum Lease Payments (In Thousands)

| Primary Government | | Component Units | | | |
|-----------------------|-------------------|-----------------------|-------------------|---------------------------|------------------|
| Year Ended June 30 | Amount | Year Ended June 30 | Amount | Year Ended December 31 | Amount |
| 2022 | \$ 83,554 | 2022 | \$ 19,528 | 2021 | \$ 2,369 |
| 2023 | 68,162 | 2023 | 17,041 | 2022 | 2,092 |
| 2024 | 53,786 | 2024 | 16,575 | 2023 | 1,995 |
| 2025 | 49,661 | 2025 | 14,988 | 2024 | 1,334 |
| 2026 | 46,120 | 2026 | 7,712 | 2025 | 1,009 |
| 2027-2031 | 88,644 | 2027-2031 | 19,169 | 2026-2030 | 4,107 |
| 2032-2036 | 2,309 | 2032-2036 | 8,095 | 2031-2035 | 238 |
| 2037-2041 | 321 | 2037-2041 | 1,713 | 2036-2040 | 72 |
| 2042-2046 | 287 | 2042-2046 | 1,619 | 2041-2045 | 49 |
| 2047-2051 | 306 | 2047-2051 | — | 2046-2050 | 5 |
| 2052-2056 | 226 | 2052-2056 | — | 2051-2055 | — |
| Total | \$ 393,376 | Total | \$ 106,440 | Total | \$ 13,270 |

Note 12 – Long-Term Liabilities - Primary Government

**Primary Government
Long-Term Liabilities
Year Ended June 30, 2021
(In Thousands)**

| Liability Type | Beginning Balances | Increases | Decreases | Ending Balances | Amounts Due Within One Year |
|----------------------------------|----------------------|---------------------|---------------------|----------------------|-----------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | \$ 7,025,411 | \$ 1,339,545 | \$ 1,449,645 | \$ 6,915,311 | \$ 506,113 |
| Revenue Bonds | 31,410 | — | 2,830 | 28,580 | 2,935 |
| State Appropriation Bonds | 944,767 | 65,798 | 54,553 | 956,012 | 47,710 |
| Loans | 51,825 | 17,911 | 21,030 | 48,706 | 19,087 |
| Due to Component Units | 3,570 | — | 668 | 2,902 | 671 |
| Capital Leases | 51,702 | — | 10,655 | 41,047 | 11,171 |
| Certificates of Participation | 79,038 | — | 2,781 | 76,257 | 2,405 |
| Claims | 844,312 | 1,068,506 | 1,037,086 | 875,732 | 181,883 |
| Compensated Absences | 363,328 | 358,504 | 327,037 | 394,795 | 52,761 |
| Other Postemployment Benefits | 549,263 | 83,587 | 31,917 | 600,933 | — |
| Net Pension Liability | 2,742,318 | 409,135 | 294,635 | 2,856,818 | — |
| Total | \$ 12,686,944 | \$ 3,342,986 | \$ 3,232,837 | \$ 12,797,093 | \$ 824,736 |
| Business-type Activities: | | | | | |
| General Obligation Bonds | \$ 214,906 | \$ 8,120 | \$ 23,827 | \$ 199,199 | \$ 20,652 |
| Revenue Bonds | 266,519 | — | 33,526 | 232,993 | 21,050 |
| Loans | 13,398 | 2,136,029 | 998,808 | 1,150,619 | 45,686 |
| Capital Leases | 5,351 | 1,147 | 2,134 | 4,364 | 1,699 |
| Claims | 28,681 | 315,684 | 309,352 | 35,013 | 33,508 |
| Compensated Absences | 164,148 | 33,491 | 30,634 | 167,005 | 19,212 |
| Other Postemployment Benefits | 81,704 | 27,082 | 21,818 | 86,968 | — |
| Net Pension Liability | 365,345 | 53,191 | 35,958 | 382,578 | — |
| Total | \$ 1,140,052 | \$ 2,574,744 | \$ 1,456,057 | \$ 2,258,739 | \$ 141,807 |

**Primary Government
Resources for Repayment of Long-Term Liabilities
Year Ended June 30, 2021
(In Thousands)**

| Liability Type | Governmental Activities | | | Business-type Activities | Total |
|-------------------------------|-------------------------|-----------------------|------------------------|--------------------------|----------------------|
| | General Fund | Special Revenue Funds | Internal Service Funds | | |
| General Obligation Bonds | \$ 4,870,981 | \$ 2,044,330 | \$ — | \$ 199,199 | \$ 7,114,510 |
| Revenue Bonds | 9,731 | 18,849 | — | 232,993 | 261,573 |
| State Appropriation Bonds | 956,012 | — | — | — | 956,012 |
| Loans | — | 694 | 48,012 | 1,150,619 | 1,199,325 |
| Due to Component Units | — | 2,902 | — | — | 2,902 |
| Capital Leases | 41,047 | — | — | 4,364 | 45,411 |
| Certificates of Participation | 76,257 | — | — | — | 76,257 |
| Claims | 183,129 | 593,075 | 99,528 | 35,013 | 910,745 |
| Compensated Absences | 223,805 | 156,028 | 14,962 | 167,005 | 561,800 |
| Other Postemployment Benefits | 593,129 | — | 7,804 | 86,968 | 687,901 |
| Net Pension Liability | 2,819,432 | — | 37,386 | 382,578 | 3,239,396 |
| Total | \$ 9,773,523 | \$ 2,815,878 | \$ 207,692 | \$ 2,258,739 | \$ 15,055,832 |

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, state appropriation bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for claims, compensated absences, other postemployment benefits, and net pension liability.

**Primary Government
General Obligation Bonds
Principal and Interest Payments
(In Thousands)**

| Year Ended June 30 | Governmental Activities | | Business-type Activities | | Total | |
|--------------------|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 506,113 | \$ 240,663 | \$ 20,652 | \$ 7,951 | \$ 526,765 | \$ 248,614 |
| 2023 | 560,712 | 216,601 | 19,143 | 6,950 | 579,855 | 223,551 |
| 2024 | 522,390 | 193,202 | 17,955 | 6,058 | 540,345 | 199,260 |
| 2025 | 500,462 | 171,362 | 16,738 | 5,249 | 517,200 | 176,611 |
| 2026 | 467,799 | 151,006 | 16,121 | 4,510 | 483,920 | 155,516 |
| 2027-2031 | 1,993,394 | 500,745 | 55,886 | 13,973 | 2,049,280 | 514,718 |
| 2032-2036 | 1,143,397 | 189,033 | 28,808 | 4,996 | 1,172,205 | 194,029 |
| 2037-2041 | 385,797 | 29,989 | 8,118 | 699 | 393,915 | 30,688 |
| Total | \$ 6,080,064 | \$ 1,692,601 | \$ 183,421 | \$ 50,386 | \$ 6,263,485 | \$ 1,742,987 |
| Bond Premium | 835,247 | — | 15,778 | — | 851,025 | — |
| Total | \$ 6,915,311 | \$ 1,692,601 | \$ 199,199 | \$ 50,386 | \$ 7,114,510 | \$ 1,742,987 |

**Primary Government
Revenue Bonds
Principal and Interest Payments
(In Thousands)**

| Year Ended June 30 | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------|-------------------------|----------|--------------------------|-----------|------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 2,935 | \$ 1,014 | \$ 21,050 | \$ 8,544 | \$ 23,985 | \$ 9,558 |
| 2023 | 1,760 | 944 | 19,685 | 7,745 | 21,445 | 8,689 |
| 2024 | 1,815 | 891 | 18,035 | 6,991 | 19,850 | 7,882 |
| 2025 | 1,870 | 834 | 18,295 | 6,251 | 20,165 | 7,085 |
| 2026 | 1,930 | 773 | 19,275 | 5,456 | 21,205 | 6,229 |
| 2027-2031 | 10,730 | 2,722 | 85,135 | 15,744 | 95,865 | 18,466 |
| 2032-2036 | 7,540 | 494 | 39,455 | 2,679 | 46,995 | 3,173 |
| 2037-2041 | — | — | 1,280 | 44 | 1,280 | 44 |
| Total | \$ 28,580 | \$ 7,672 | \$ 222,210 | \$ 53,454 | \$ 250,790 | \$ 61,126 |
| Bond Premium | — | — | 10,783 | — | 10,783 | — |
| Total | \$ 28,580 | \$ 7,672 | \$ 232,993 | \$ 53,454 | \$ 261,573 | \$ 61,126 |

**Primary Government
State Appropriation Bonds
Principal and Interest Payments
(In Thousands)**

| Year Ended June 30 | Governmental Activities | |
|--------------------|-------------------------|------------|
| | Principal | Interest |
| 2022 | \$ 47,710 | \$ 39,848 |
| 2023 | 52,130 | 37,526 |
| 2024 | 54,745 | 35,054 |
| 2025 | 57,650 | 32,455 |
| 2026 | 60,595 | 29,792 |
| 2027-2031 | 289,035 | 105,497 |
| 2032-2036 | 116,455 | 62,604 |
| 2037-2041 | 139,145 | 34,185 |
| 2042-2046 | 56,060 | 4,249 |
| Total | \$ 873,525 | \$ 381,210 |
| Bond Premium | 82,487 | — |
| Total | \$ 956,012 | \$ 381,210 |

**Primary Government
Loans Payable and Due to Component Units
Principal and Interest Payments
(In Thousands)**

| Year Ended June 30 | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------|-------------------------|----------|--------------------------|-----------|--------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 19,758 | \$ 807 | \$ 45,686 | \$ 18,321 | \$ 65,444 | \$ 19,128 |
| 2023 | 14,656 | 488 | 463,765 | 9,294 | 478,421 | 9,782 |
| 2024 | 8,774 | 273 | 463,731 | 2,792 | 472,505 | 3,065 |
| 2025 | 3,553 | 175 | 168,053 | 250 | 171,606 | 425 |
| 2026 | 952 | 141 | 828 | 226 | 1,780 | 367 |
| 2027-2031 | 1,970 | 475 | 3,991 | 819 | 5,961 | 1,294 |
| 2032-2036 | 1,361 | 231 | 3,744 | 323 | 5,105 | 554 |
| 2037-2041 | 584 | 24 | 821 | 30 | 1,405 | 54 |
| Total | \$ 51,608 | \$ 2,614 | \$ 1,150,619 | \$ 32,055 | \$ 1,202,227 | \$ 34,669 |

**Primary Government
Capital Leases
Principal and Interest Payments
(In Thousands)**

| Year Ended June 30 | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------|-------------------------|----------|--------------------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 11,171 | \$ 2,037 | \$ 1,699 | \$ 174 | \$ 12,870 | \$ 2,211 |
| 2023 | 11,717 | 1,477 | 691 | 93 | 12,408 | 1,570 |
| 2024 | 12,291 | 892 | 308 | 93 | 12,599 | 985 |
| 2025 | 5,599 | 276 | 309 | 92 | 5,908 | 368 |
| 2026 | 269 | 7 | 212 | 46 | 481 | 53 |
| 2027-2031 | — | — | 1,050 | 96 | 1,050 | 96 |
| 2032-2036 | — | — | 95 | 1 | 95 | 1 |
| Total | \$ 41,047 | \$ 4,689 | \$ 4,364 | \$ 595 | \$ 45,411 | \$ 5,284 |

**Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)**

| Year Ended June 30 | Governmental Activities | |
|--|-------------------------|-----------|
| | Principal | Interest |
| 2022 | \$ 2,405 | \$ 3,384 |
| 2023 | 2,525 | 3,264 |
| 2024 | 2,650 | 3,137 |
| 2025 | 2,785 | 3,004 |
| 2026 | 2,925 | 2,866 |
| 2027-2031 | 16,965 | 11,984 |
| 2032-2036 | 21,655 | 7,294 |
| 2037-2041 | 15,765 | 1,602 |
| Total | \$ 67,675 | \$ 36,535 |
| Premium on Certificates of Participation | 8,582 | — |
| Total | \$ 76,257 | \$ 36,535 |

Debt Service Fund

For state general obligation bonds, Minnesota Statutes 16A.641 provides for an annual appropriation for transfer to the Debt Service Fund. The amount of the appropriation is to be such that, when combined with the balance on hand in the Debt Service Fund on December 1 of each year for state bonds, it will be sufficient to pay all general obligation bond principal and interest due and to become due through July 1 in the second ensuing year. If the amount appropriated is insufficient when combined with the balance on hand in the Debt Service Fund, the state constitution requires the state auditor to levy a statewide property tax to cover the deficiency. No such property tax has been levied since 1969 when the law requiring the appropriation was enacted.

For other annual appropriation debt, the amounts needed to pay principal and interest payment are appropriated each fiscal year for transfer to the Debt Service Fund. The state has no legal obligation to continue appropriating funds to make debt service payments. The annual appropriation debt is canceled on the earlier of the fiscal year for which the legislature does not appropriate sufficient amounts for debt service, an executive unallotment regarding continuing appropriations for debt service, or the date of the final principal and interest payment. The Minnesota Statutes governing outstanding annual appropriation debt are provided in the applicable sections in this note.

During fiscal year 2021, Minnesota Management and Budget made the necessary transfers to the Debt Service Fund as follows:

**Primary Government
Transfers to Debt Service Fund
Year Ended June 30, 2021
(In Thousands)**

| Fund Type | Amount |
|---|------------|
| General Fund | \$ 604,306 |
| Special Revenue Funds: | |
| Trunk Highway Fund | \$ 177,571 |
| Miscellaneous Special Revenue Fund | 1,194 |
| Total Special Revenue Funds | \$ 178,765 |
| Capital Project Funds: | |
| Building Fund | \$ 96 |
| Transportation Fund | 30 |
| Total Capital Project Funds | \$ 126 |
| Internal Service Fund – Plant Management Fund | 5,788 |
| Total Transfers to Debt Service Fund | \$ 788,985 |

General Obligation Bond Issues

In August 2020, the state issued \$1,198,550,000 general obligation bonds, Series 2020A through Series 2020G:

- Series 2020A for \$330,360,000 in state various purpose bonds were issued at a true interest rate of 1.60 percent.
- Series 2020B for \$152,020,000 in state trunk highway bonds were issued at a true interest rate of 1.26 percent.
- Series 2020C for \$20,515,000 in taxable state bonds were issued at a true interest rate of 1.26 percent.
- Series 2020D for \$128,115,000 in state various purpose refunding bonds were issued at a true interest rate of 0.16 percent. The aggregate debt service payments decreased by \$11,938,000 and the economic gain (the present value of the debt service savings) for the state was \$14,692,000.
- Series 2020E for \$163,380,000 in state trunk highway refunding bonds were issued at a true interest rate of 0.45 percent. The aggregate debt service payments decreased by \$11,255,000 and the economic gain (the present value of the debt service savings) for the state was \$25,793,000.
- Series 2020F for \$223,970,000 in taxable state various purpose refunding bonds were issued at a true interest rate of 0.98 percent. The aggregate debt service payments decreased by \$31,933,000 and the economic gain (the present value of the debt service savings) for the state was \$31,870,000.
- Series 2020G for \$180,190,000 in taxable state trunk highway refunding bonds were issued at a true interest rate of 0.95 percent. The aggregate debt service payments decreased by \$31,621,000 and the economic gain (the present value of the debt service savings) for the state was \$30,808,000.

The state remains contingently liable to pay its advance refunded general obligation bonds as shown in the following table.

**Primary Government
General Obligation Bonds Outstanding Defeased Debt
As of June 30, 2021
(In Thousands)**

| Refunding Date | Original Refunding Amount | Refunded Amount | Outstanding Amount | Refunded Bond Call/Maturity Date |
|-----------------|---------------------------|-------------------|--------------------|----------------------------------|
| August 21, 2014 | \$ 5,449 | \$ 5,705 | \$ 3,500 | October 1, 2021 |
| August 21, 2014 | 9,727 | 10,185 | 6,795 | August 1, 2022 |
| March 14, 2018 | N/A | 1,860 | 465 | August 1, 2021 |
| March 14, 2018 | N/A | 480 | 480 | October 1, 2023 |
| August 25, 2020 | 223,970 | 219,250 | 219,250 | October 1, 2021 |
| August 25, 2020 | <u>180,190</u> | <u>176,000</u> | <u>176,000</u> | October 1, 2021 |
| Total | <u>\$ 419,336</u> | <u>\$ 413,480</u> | <u>\$ 406,490</u> | |

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2021. This schedule includes all general obligation bonds that were sold, including bonds sold for the State Colleges and Universities Fund (enterprise fund).

**Primary Government
General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2021
(In Thousands)**

| Purpose | Authorized But Unissued | Amount Outstanding | Interest Rates for Outstanding |
|---------------------------------|-------------------------|---------------------|--------------------------------|
| Maximum Effort School Loan | \$ — | \$ 10,704 | 5.00% |
| Rural Finance Authority | 25,025 | 102,475 | 1.35-5.00% |
| State Transportation | 314,096 | 255,366 | 2.50-5.00% |
| Trunk Highway | 1,755,335 | 1,564,775 | 1.50-5.00% |
| Trunk Highway Refunding Bonds | — | 479,555 | 0.40-5.00% |
| Various Purpose | 1,529,546 | 2,400,090 | 1.35-5.00% |
| Various Purpose Refunding Bonds | — | 1,450,520 | 0.47-5.00 |
| Total | <u>\$ 3,624,002</u> | <u>\$ 6,263,485</u> | |

State Appropriation Bonds

On October 31, 2012, the Minnesota Supreme Court concluded that the Appropriation Refunding Bonds do not constitute public debt for which the state has pledged its full faith, credit, and taxing powers. The Minnesota Supreme Court held that, accordingly, the bonds are not subject to the Minnesota Constitution's Article XI, Section 5, restrictions on the use of the proceeds of "public debt." Resulting from the decision of this court case, on November 21, 2012, the state sold state General Fund appropriation refunding bonds as authorized by Minnesota Statutes 16A.99. The bonds were issued for the purpose of refunding tobacco settlement revenue bonds Series 2011A and Series 2011B of the Tobacco Securitization Authority. These appropriation bonds are payable only from amounts appropriated by the Minnesota Legislature.

Minnesota Statutes 16A.965 authorizes the state to issue state General Fund appropriation bonds for the purpose of financing up to \$498,000,000 for the state and City of Minneapolis' share of the costs of a professional football stadium project of the Minnesota Sports Facilities Authority (component unit). The state has commenced the financing process. In addition, the Minnesota Pay-for-Performance Act of 2011 authorized issuance of up to \$10,000,000 bond proceeds as incentive payments to service providers for certain financial outcomes that will result in decreased costs or increased revenues to the state.

Minnesota Statutes 16A.967 as amended by the Laws of Minnesota Special Session 2017, Chapter 8, Article 2, Section 2, authorizes the state to issue state General Fund appropriation bonds not to exceed \$22,500,000 for financing land acquisition, design, engineering, and construction of facilities and infrastructure necessary to complete the next phase of the Lewis and Clark Regional Water System project, including completion of the pipeline to Magnolia, extension of the project to the Lincoln-Pipestone Rural Water System connection near Adrian, and engineering, design, and easement acquisition for the final phase of the project to Worthington. No bonds shall be sold until the commissioner of Minnesota Management and Budget determines that a nonstate match of at least \$9,000,000 is committed to this project phase. Grant agreements entered into under this section must provide for reimbursement to the state from any federal money provided for the project, consistent with the Lewis and Clark Regional Water System Incorporated Agreement. The nonstate match was met and in fiscal year 2017, state General Fund appropriation bonds of \$11,790,000. In fiscal year 2018, state General Fund appropriation bonds of \$7,570,000 were issued.

Minnesota Statutes 469.53 authorizes projects eligible for state appropriation support payments, upon approval by the city of Duluth. Eligible project include: (1) two levels of expansion to an existing medical district parking ramp and a skywalk replacement; (2) a ramp with up to 1,400 new parking stalls to serve the medical entity west; (3) extension of 6th Avenue East; (4) demolition of existing hospital structure; (5) roadway, utility, and site improvements and capacity upgrades to support medical entity west; (6) district energy connections; and (7) a ramp for up to 400 new parking stalls to serve the medical entity east. Minnesota Statutes 469.54 authorizes the city of Duluth, in lieu of directly receiving the appropriation support payments, to have the state issue state General Fund appropriation bonds. Minnesota Statutes 16A.968, as amended by Laws of Minnesota Regular Session 2020, Chapter 83, Article 1, Section 3, authorizes the state to issue state General Fund appropriation bonds not to exceed \$97,720,000 for the purpose of financing public infrastructure projects authorized and approved by the city of Duluth. In the event the state issues state General Fund appropriation bonds for these purposes, the amount of appropriation support payments in any year is reduced by an amount equal to the amount needed from the General Fund. Up to \$8,100,000 is appropriated from the General Fund each year beginning in fiscal year 2022 through fiscal year 2055 to pay debt service on the bonds, subject to Minnesota Statutes 469.54, subdivision 3 which allows a maximum appropriation support payment of \$3.7 million in fiscal year 2022. Debt service on these bonds is paid from a statutory General Fund appropriation that may be repealed, canceled, or unallotted. On November 5, 2020, the state issued \$66,300,000 in Duluth Regional Exchange District state General Fund appropriation bonds at a true interest rate of 2.50 percent. In October 2021, the state issued \$6,920,000 in Duluth Regional Exchange District state General Fund appropriation bonds. For more information, see Note 22 – Subsequent Events.

Minnesota Statutes 16A.966 authorizes the state to issue state General Fund appropriation bonds not to exceed \$30,400,000 for the purpose of financing the cost of implementing environmental clean-up actions at four Superfund sites in Minnesota. In October 2021, the state issued \$29,670,000 state General Fund appropriation bonds for this purpose. See Note 22 – Subsequent Events for more information. An amount needed to pay principal and interest on appropriation bonds is appropriated each fiscal year from the general fund beginning in fiscal year 2021 and remains available through fiscal year 2042.

Minnesota Statutes 16A.964 authorizes the state to issue state General Fund appropriation bonds not to exceed \$15,000,000 for the purpose of financing grants to public television stations in Minnesota for the

cost of acquiring and installing capital equipment. In October 2021, the state issued \$14,050,000 in state General Fund appropriation bonds for this purpose. See Note 22 – Subsequent Events for more information. An amount needed to pay principal and interest on appropriation bonds is appropriated each fiscal year from the general fund beginning in fiscal year 2021 and remains available through fiscal year 2042.

Minnesota Statutes 16A.963 authorizes the state to issue state General Fund appropriation bonds not to exceed \$2,000,000 for the purpose of financing the cost of acquiring and installing electric vehicle charging infrastructure on publicly owned property. In October 2021, the state issued \$1,875,000 state General Fund appropriation bonds for this purpose. See Note 22 – Subsequent Events for more information. An amount needed to pay principal and interest on appropriation bonds is appropriated each fiscal year from the general fund beginning in fiscal year 2021 and remains available through fiscal year 2042.

The following table is a schedule of state appropriation bonds authorized, but unissued, and bonds outstanding as of June 30, 2021.

**Primary Government
State Appropriation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2021
(In Thousands)**

| Purpose | Authorized But Unissued | Amount Outstanding | Interest Rates |
|---|-------------------------|--------------------|----------------|
| Professional Football Stadium | \$ — | \$ 398,630 | 3.26-5.08% |
| Pay-for-Performance | 10,000 | — | N/A |
| Refund Tobacco Securitization Authority | — | 393,375 | 3.00-5.00% |
| Lewis and Clark Regional Water System | 3,500 | 15,220 | 1.65-3.50% |
| Duluth Regional Exchange District | | | |
| Appropriation Bonds | 32,910 | 66,300 | 1.55-2.88% |
| Total | <u>\$ 46,410</u> | <u>\$ 873,525</u> | |

Loans Payable and Due to Component Unit

Governmental activities loans and due to component units are loans/due to component units for transportation projects, energy efficiency improvements, and equipment purchase loans for internal service funds. The capital assets purchased for energy efficiency improvements and equipment purchases are pledged as collateral on the loans incurred to finance the purchase. On June 30, 2021, the state has an unused line of credit of \$28,569,000 to finance additional equipment purchases.

Business-type activities loans include loans to purchase energy efficiency improvements and equipment and a federal advance to cover unemployment benefits. The capital assets purchased for energy efficiency improvements and equipment purchases are pledged as collateral on the loans incurred to finance the purchases. The Unemployment Insurance Fund (enterprise fund) went into a deficit and received a federal Title XII advance to cover this deficit. This advance will be paid back through receipt of unemployment insurance taxes and assessments. These taxes and assessments are received quarterly, and the exact amounts vary from quarter to quarter; therefore, the repayment schedule has been estimated. The deficit is expected to be eliminated by fiscal year 2025.

Capital Leases

In fiscal year 2006, the state entered into capital lease agreements, amended in fiscal year 2013, with St. Paul Port Authority (SPPA - not part of the state's reporting entity) to purchase two newly constructed

buildings on state-owned land for \$180,005,000. Lease payments are scheduled over 20 years and approximate the debt service payments of SPPA. The leases meet the criteria of a capital lease as defined by GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The terms of each agreement provide options to purchase the buildings under a bargain purchase option. In May 2013, SPPA issued refunding bonds of \$115,760,000. The proceeds of the bonds were applied to refund SPPA's outstanding revenue bonds. The lease agreement was amended to approximate the debt service payments of SPPA refunding bonds.

The state has other capital lease agreements to purchase equipment that meets the above criteria. The equipment is pledged as collateral on these lease agreements. In addition, Minnesota State Universities Fund (enterprise fund) entered into capital lease agreements for campus facilities. Minnesota State Colleges and Universities (MnSCU) guaranteed the revenue bonds issued by Clay County and the city of Saint Cloud Housing and Redevelopment Authority. As of June 30, 2021, MnSCU has not been required to make any payments on these guarantees. In the event MnSCU is called upon to make any lease payments, default provisions in each lease agreement provide options to terminate the agreement and possession of the buildings can be pursued legally by MnSCU. As of June 30, 2021, there is \$3,756,000 principal outstanding on these guarantees.

Certificates of Participation

In August 2014, the state issued \$80,100,000 of certificates of participation (COPs) at a true interest rate of 3.70 percent to finance the pre-design, design, and construction and equipping of offices, hearing rooms, and parking facilities for a legislative office facility as authorized by Laws of Minnesota Regular Session 2013, Chapter 143, Article 12, Section 21. The COPs are not general or moral obligations of the state and no revenues are pledged to repay them. If the state defaults on the debt, the trustee has the right to terminate the lease terms of the project and to take whatever legal action may appear necessary to collect rental payment(s).

Revenue Bonds Payable

In October 2013, Iron Range Resources and Rehabilitation issued \$37,830,000 of education facilities revenue bonds at a true interest rate of 3.76 percent. Minnesota Laws of 2013, Chapter 143, Article 11, Section 11; Minnesota Statutes 298.22 through 298.32; and an order of the commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. The bonds will be used to make grants to certain school districts located in the taconite relief areas, as defined in Minnesota Statutes 273.134. The interest rates for the bonds range from 3.00 percent to 4.30 percent over a 20 year term.

In September 2014, the Iron Range Resources and Rehabilitation issued \$7,860,000 of education facilities refunding revenue bonds at a true interest rate of 1.32 percent. The proceeds of the bonds will be used to affect a current refunding of the commissioner of Iron Range Resources and Rehabilitation's Educational Facilities Revenue Bonds Series 2006. Minnesota Laws of 2005, Chapter 152, Article 1, Section 39 as amended; Minnesota Statutes 298.2211; and an order of the commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. The interest rates on the bonds are 3.00 percent for the remaining year of the bonds.

To repay the bonds, Iron Range Resources and Rehabilitation has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund). These tax distributions, totaling \$3,994,000 for fiscal year 2021, have averaged less than ten percent of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. For fiscal year 2021, principal and interest paid by Iron Range Resources and Rehabilitation on the bonds was \$3,940,000. The

total principal and interest remaining to be paid as of June 30, 2021, is \$36,252,000 payable through October 2033.

The state is authorized by Minnesota Statutes 403.275, and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, \$35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. On November 13, 2008, \$42,205,000 in revenue bonds were issued at a true interest rate of 4.60 percent. On October 22, 2009, \$60,510,000 in revenue bonds were issued at a true interest rate of 3.17 percent. On August 16, 2011, \$60,380,000 in revenue bonds were issued at a true interest rate of 2.96 percent. On November 1, 2016, \$91,715,000 in revenue refunding bonds were issued at a true interest rate of 1.06 percent. The proceeds of the bonds were used to defease and refund, on an advance refunding basis, the outstanding maturities of the state's 911 Revenue Bonds Series 2008, Series 2009, Series 2011, and pay the costs associated with the issuance of the bonds. The state has pledged future 911 fee revenues to repay the debt. The debt service on these bonds is payable solely from the revenues derived from the 911 fee assessed on wireless and wire-line telephone service. All remaining principal and interest on the bonds has been paid as of June 30, 2021. Principal and interest paid during fiscal year 2021 and total 911 fee revenues were \$10,652,000 and \$79,441,000, respectively. The bonds are accounted for in the 911 Services Fund (enterprise fund).

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) is authorized by Minnesota Statutes 136F.98 to issue revenue bonds whose aggregate principal shall not exceed \$405,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 2.00 percent to 5.00 percent. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 36 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$274,626,000. Principal and interest paid for the current year and total customer net revenues were \$29,401,000 and \$82,216,000, respectively. The bonds are accounted for in the State Colleges and Universities Fund (enterprise fund).

Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2038. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 47 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,038,000. Principal and interest paid and total customer net revenues during fiscal year 2021 were \$169,000 and \$362,000, respectively. These revenue bonds have a variable interest rate of 0.75 percent to 3.65 percent. The bonds are accounted for in the State Colleges and Universities Fund (enterprise fund).

Claims

The state has assumed responsibility for the long-term care of certain closed municipal solid waste facilities. Minnesota Statutes 115B.39 established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. The state is responsible, in perpetuity, for performing cleanup and final closure work, as well as all postclosure maintenance and monitoring, at qualifying sites. Municipal solid waste landfill liabilities of \$331,946,000 for closure and postclosure care claims are payable from the Environmental and Remediation Fund (special revenue fund) and the General Fund. There are currently 110 landfills in the program and four more landfills that are qualified, but not yet enrolled. One of the qualified sites, Freeway Landfill, has a liability of \$132,905,000; approximately 40 percent of the total landfill liability. Estimated landfill closure and postclosure liabilities include planned response actions, future unknown additional remedies which have some probability of occurring, future

replacement of some remedial systems, and administrative costs. Additionally, funds may be spent for corrective actions to address incidents involving agricultural chemicals, including related administrative costs, enforcement, and cost recovery actions. Since costs are estimated at current value, actual costs could be different because of inflation, changes in technology, inclusion of additional qualifying sites, or changes in regulations, and future unanticipated response actions.

Funding for the state's ongoing claims at these landfills has historically come from the Environmental and Remediation Fund (special revenue fund). Currently, the majority of funds appropriated for spending from the Environmental and Remediation Fund are budgeted and expended annually on activities not associated with closure and postclosure care of landfills. Further, the recovery of financial assurance monies from previous landfill owners and operators is no longer a source of revenue to the Environmental and Remediation Fund. The closed landfill investment account, established under Minnesota Statutes 115B.421, within the Environmental and Remediation Fund was created to address a portion of these required long-term postclosure costs through minimal withdrawals from a fund managed through the State Board of Investment to ensure long-term availability of resources and may be spent after fiscal year 2020. The Metropolitan Landfill Contingency Action Account is an account in the Environmental and Remediation Fund consisting of revenues from 25 percent of the metropolitan solid waste landfill fee, cost recovery of response actions expenses, and interest earned on investment of money in the account. The account appropriated for closure and post-closure care of mixed municipal solid waste disposal facilities in the metropolitan area for a thirty year period after closure if determine that the operator/owner cannot take the necessary actions as directed by the commissioner of the Minnesota Pollution Control Agency. Proceeds from the sale of state general obligation bonds, accounted for in the Building Fund (capital projects fund) and repaid by the General Fund, are now a significant source of funding for design and construction work at the publicly-owned landfills in the program.

The state of Minnesota is financially responsible to remediate certain known pollution present on either state-owned or non-state-owned land. In most cases, the state voluntarily assumes responsibility for site assessment and clean-up activities when the responsible party cannot be found or is financially unable to perform the remediation. Pollution remediation obligation liabilities as of June 30, 2021, were \$185,166,000. Of this total, \$156,193,000 was the liability for remediation on sites designated pursuant to state or federal superfund laws. The pollution remediation amounts are estimated through an analysis of existing polluted sites. The liabilities are based on the weighted average of the pollution remediation outlays expected to be incurred to settle those liabilities. Because the liabilities are measured at their current value, they are subject to change due to inflation, technology improvements, or changes to applicable laws and regulations.

Funding for the state's pollution remediation primarily comes from the Environmental and Remediation Fund (special revenue fund), which was established under Minnesota Statutes 116.155, and the Petroleum Tank Cleanup Fund (special revenue fund), which was established under Minnesota Statutes 115C.08. These statutes require the state to reimburse eligible applicants for a significant portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks. Reimbursements are made from the Petroleum Tank Cleanup Fund. As of July 2021, the Petroleum Tank Cleanup Fund has approved \$464,000,000 in reimbursements for eligible applicants since program inception in 1987. Future expenditures from the Petroleum Tank Cleanup Fund will be necessary as existing cleanup projects are completed and new cleanup projects are begun at currently undiscovered leak sites. The estimated total payments from the program, which is scheduled to sunset on June 30, 2022, are between \$460,000,000 and \$480,000,000 for investigative and cleanup costs.

During the 2020 legislative session (fifth special session) the Minnesota legislature authorized the sale of appropriation bonds for the purposes of financing the cost of implementing removal or remedial actions permitted under Minnesota Statute 115B.17. These appropriations bonds will be used to address risks to

human health and environment at four Superfund sites. See Note 22 – Subsequent Events for more information.

The governmental activities' and business-type activities' liability for workers' compensation of \$77,192,000 and \$3,858,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2021 and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of \$28,600,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of \$153,300,000 are for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00 percent) cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately 2058 for supplementary benefits and 2046 for second injuries.

The remaining claims represent \$11,489,000 in the Risk Management Fund (internal service fund), \$88,039,000 in the Employee Insurance Fund (internal service fund), and \$31,155,000 in the Public Employees Insurance Fund (enterprise fund).

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of \$394,795,000 and \$167,005,000 respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2021, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

On June 1, 2000, the state of Minnesota issued revenue bonds totaling \$29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes 356.89 authorized the issuance of the revenue bonds for the construction of an administrative office building. On August 9, 2012, the state of Minnesota issued revenue refunding bonds totaling \$21,880,000 on behalf of the state's three retirement systems at a true rate of 1.63 percent. Minnesota Statute 356B.10, authorized the issuance of the revenue bonds for a current refunding of the \$29,000,000 Retirement System Building Revenue Bonds, Series 2000, which were issued for the construction of an administrative office building. The revenue refunding bonds have an interest rate of 1.63 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds.

The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2021, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and General Employees Retirement Fund (GERF) was \$2,100,000. The

total principal and interest remaining to be paid as of June 30, 2021, is \$7,207,000, payable through fiscal year 2025.

Long-Term Debt Repayment Schedule Fiduciary Funds Revenue Bonds – SERF, TRF, and GERF (In Thousands)

| Year Ended June 30 | Principal | Interest |
|--------------------|-----------|----------|
| 2022 | \$ 1,875 | \$ 228 |
| 2023 | 1,915 | 190 |
| 2024 | 1,845 | 114 |
| 2025 | 1,000 | 40 |
| Total | \$ 6,635 | \$ 572 |
| Bond Premium | 326 | — |
| Total | \$ 6,961 | \$ 572 |

Note 13 – Long-Term Liabilities - Component Units

General Obligation and Revenue Bonds

The Metropolitan Council (MC) issued general obligation bonds for parks, solid waste disposal systems, sewers, and transportation projects, backed by the full faith and credit and taxing powers of MC. MC had \$1,670,446,000 in general obligation bonds and direct borrowings outstanding on December 31, 2020, including unamortized discounts/premiums. During the year, \$8,800,000 of general obligation park bonds; \$15,155,000 of general obligation transit refunding bonds; \$80,000,000 of general obligation wastewater bonds; and \$30,790,000 of general obligation wastewater refunding bonds were issued.

MC's outstanding notes from direct borrowings of \$524,131,000 are Clean Water State Revolving Fund Loan agreements with the Minnesota Public Facilities Authority (MPFA), which are evidenced by notes placed directly with MPFA. These MPFA loans finance various capital projects for the Environmental Services division. The loans are repaid from wastewater system revenues.

The University of Minnesota (U of M) issued general obligation bonds and revenue bonds for capital projects. On June 30, 2021, the principal amount of general obligation bonds and revenue bonds outstanding, including unamortized discounts/premiums, was \$1,073,788,000 and \$284,948,000, respectively.

| Component Units General Obligation Bonds Major Component Units (In Thousands) | | | | | |
|--|--------------|------------|---|--------------|------------|
| MC | | U of M | | | |
| Year Ended | | Year Ended | | | |
| 2021 | \$ 219,273 | \$ 52,094 | 2022 | \$ 48,525 | \$ 37,866 |
| 2022 | 148,357 | 41,669 | 2023 | 39,500 | 39,355 |
| 2023 | 140,800 | 36,411 | 2024 | 41,115 | 37,614 |
| 2024 | 133,711 | 31,351 | 2025 | 43,005 | 35,767 |
| 2025 | 124,958 | 26,604 | 2026 | 44,840 | 33,824 |
| 2026-2030 | 452,912 | 80,594 | 2027-2031 | 240,850 | 136,834 |
| 2031-2035 | 258,318 | 28,938 | 2032-2036 | 213,745 | 85,809 |
| 2036-2040 | 85,137 | 3,624 | 2037-2041 | 180,290 | 42,042 |
| 2041-2045 | — | — | 2042-2046 | 94,485 | 7,910 |
| Total | \$ 1,563,466 | \$ 301,285 | Total | \$ 946,355 | \$ 457,021 |
| Unamortized Discounts / Premiums and Issuance Costs | 106,980 | — | Unamortized Discounts / Premiums and Issuance Costs | 127,433 | — |
| Total | \$ 1,670,446 | \$ 301,285 | Total | \$ 1,073,788 | \$ 457,021 |

⁽¹⁾ MC Interest is net of Build America Bonds federal subsidy.

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes 462A.06 to issue revenue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed \$5,000,000,000, according to Minnesota Statutes 462A.22. The principal amount of revenue bonds outstanding on June 30, 2021, including unamortized discounts/premiums, was \$3,275,383,000. The agency uses special redemption provisions to retire certain bonds prior to their maturity from unexpended bond proceeds. Substantially all bonds are subject to optional redemption after various dates at an amount equals all of the unpaid principal and interest. The amount of bonds approved by June 30, 2021 to exercise the early redemption option was \$160,403,000, and is considered part of current bonds payable.

On June 30, 2021, HFA had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of \$85,000,000. Draws against the line of credit are required to be collateralized with mortgage-backed securities.

| Year Ended June 30 | Component Units Revenue Bonds Major Component Units (In Thousands) | | U of M | |
|--|---|--------------|------------|-------------------------|
| | HFA | | | |
| | Principal | Interest | Principal | Interest ⁽¹⁾ |
| 2022 | \$ 223,944 | \$ 76,216 | \$ 13,375 | \$ 10,666 |
| 2023 | 53,920 | 75,498 | 14,045 | 9,989 |
| 2024 | 38,985 | 74,904 | 14,755 | 9,278 |
| 2025 | 33,435 | 74,330 | 15,500 | 8,532 |
| 2026 | 34,515 | 73,700 | 16,270 | 7,760 |
| 2027-2031 | 206,335 | 355,761 | 97,125 | 27,012 |
| 2032-2036 | 316,930 | 329,426 | 71,265 | 10,316 |
| 2037-2041 | 356,550 | 295,764 | 20,915 | 611 |
| 2042-2046 | 604,483 | 243,955 | — | — |
| 2047-2051 | 1,354,067 | 97,869 | — | — |
| 2052-2056 | 17,575 | 333 | — | — |
| Total | \$ 3,240,739 | \$ 1,697,756 | \$ 263,250 | \$ 84,164 |
| Unamortized Discount / Premiums and Issuance Costs | 34,644 | — | 21,698 | — |
| Total | \$ 3,275,383 | \$ 1,697,756 | \$ 284,948 | \$ 84,164 |

⁽¹⁾ Excludes interest on variable rate bonds with an outstanding principal balance of \$32.850 million.

The Office of Higher Education (OHE) is authorized by Minnesota Statutes 136A.171-136A.175 to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed \$850,000,000, according to Minnesota Statutes 136A.171. On June 30, 2021, the outstanding principal of revenue bonds was \$500,579,000, including unamortized discounts/premiums.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes 446A.04 to issue revenue bonds to make loans to municipalities for wastewater treatment facilities, drinking water systems, and transportation. The amount outstanding on these bonds at any time shall not exceed \$2,000,000,000, according to Minnesota Statutes 446A.12. The principal amount of bonds outstanding on June 30, 2021, including unamortized discounts/premiums, was \$546,279,000.

| Year Ended June 30 | Component Units Revenue Bonds Nonmajor Component Units (In Thousands) | | | |
|---|--|------------|------------|------------|
| | OHE | | PFA | |
| | Principal | Interest | Principal | Interest |
| 2022 | \$ 23,160 | \$ 8,245 | \$ 74,510 | \$ 23,904 |
| 2023 | 1,335 | 7,294 | 55,975 | 20,341 |
| 2024 | 2,790 | 7,201 | 54,375 | 17,858 |
| 2025 | 4,240 | 7,045 | 23,650 | 15,517 |
| 2026 | 5,540 | 6,804 | 34,075 | 14,518 |
| 2027-2031 | 35,875 | 30,106 | 176,865 | 45,629 |
| 2032-2036 | 26,390 | 24,345 | 85,960 | 13,313 |
| 2037-2041 | 106,295 | 19,626 | | |
| 2042-2046 | 101,300 | 13,215 | | |
| 2047-2051 | 191,700 | 2,382 | | |
| Total | \$ 498,625 | \$ 126,263 | \$ 505,410 | \$ 151,080 |
| Unamortized Discount / Premiums and Issuance Costs | 1,954 | — | 40,869 | — |
| Total | \$ 500,579 | \$ 126,263 | \$ 546,279 | \$ 151,080 |

HFA has two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing, and other purposes. These bonds are payable solely from the appropriations of the primary government's General Fund authorized by Minnesota Statutes 462A.36 and 462A.37. On June 30, 2021, \$280,760,000 in bonds were outstanding.

**Component Units
State Appropriation-Backed Bonds
Major Component Units
(In Thousands)**

| Year Ended June 30 | HFA | |
|-----------------------|------------|------------|
| | Principal | Interest |
| 2022 | \$ 9,690 | \$ 11,241 |
| 2023 | 11,320 | 10,876 |
| 2024 | 11,720 | 10,480 |
| 2025 | 12,140 | 10,056 |
| 2026 | 12,630 | 9,565 |
| 2027-2031 | 71,625 | 39,382 |
| 2032-2036 | 77,965 | 23,477 |
| 2037-2041 | 60,055 | 8,097 |
| 2042-2046 | 13,615 | 619 |
| Total | \$ 280,760 | \$ 123,793 |

Loans and Notes Payable

Metropolitan Council

The Metropolitan Council (MC) received loans from the Housing Finance Agency (component unit) in calendar years 2002 and 2004 for \$400,000, and \$730,000, respectively. In 2004, MC received a \$275,000 loan from Hennepin County Housing and Redevelopment Authority for a total of \$1,405,000 of loans outstanding on December 31, 2020. The terms of the loan agreements are 30 years, although they may be extended indefinitely if all the terms of the loan agreement are met.

Additionally, MC issued \$125,160,000 of general obligation grant anticipation notes to provide cash flows for the Southwest Green Line light rail extension project in anticipation of receipt of federal funds that were awarded the project. The notes were issued as three year serial notes and are secured by the Federal Transit Administration grant award together with the full faith and unlimited taxing powers of the council.

University of Minnesota

The University of Minnesota (U of M) issued taxable commercial paper notes of \$51,620,000 in fiscal years 2015 and \$64,000,000 in 2019. U of M also issued tax-exempt commercial paper notes which are backed by U of M's self-liquidity. On June 30, 2021, the outstanding taxable commercial paper notes were \$40,620,000 and tax-exempt notes were \$137,450,000. Commercial paper is short-term in nature and is classified as current liabilities on the financial statements. During the year 2021, proceeds from the GO Taxable Bonds Series 2020B were used to pay off the outstanding balance of \$53,000,000 of CP Notes Series I.

In fiscal year 2020, U of M executed a long-term promissory note payable to Otto Bremer Trust in the amount of \$4,500,000, and the proceeds were used to partially fund property acquisition.

National Sports Center Foundation

On December 31, 2020, the National Sports Center Foundation's total outstanding loans and notes payable was \$7,881,000.

Capital Leases

Metropolitan Council

On December 1, 2004, the Metropolitan Council entered into an annual appropriation lease purchase agreement for land and facilities. The lease is subject to non-appropriation by MC, in which event the lease is terminated and there is no obligation of MC for future lease payments. MC intends to continue the lease through its entire term. On December 31, 2020, the present value of the minimum lease payments was \$3,635,000.

University of Minnesota

The University of Minnesota has five distinct capital leases. One is financed through third-party financing for the purchase of fleet vehicles. The remaining four capital leases have payments being paid directly to the lessor and represent leases for buildings. On June 30, 2021, the net present value of the minimum lease payments was \$26,317,000.

Variable Rate Debt

Housing Finance Agency

As of June 30, 2021, all of the HFA interest rate swap agreements have been determined to be effective hedges, as defined by GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments." The fair value was reported as a liability called "Interest Rate Swap Agreements." The inception-to-date change in fair value as of June 30, 2021, was reported in "Accumulated Decrease in Fair Value of Hedging Derivative Instruments" deferred outflows of resources. Fair values were determined pursuant to GASB Statement No. 72 "Fair Value Measurement and Application," and the fair value hierarchy of interest rate swap agreements is determined to be Level 2. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

Office of Higher Education

The rates on the tax-exempt Series 2012B-1 and 2012B-2 Bonds are variable rate. The rate is a percentage of the weekly Securities Industry and Financial Markets Association (SIFMA) rate plus a set margin and the rate changes weekly. The taxable Series 2017A, and tax-exempt Series 2017C are also variable. The rate is a percentage of the one-month London Inter-Bank Rate (LIBOR) plus a set margin and the rate changes monthly. All of these bonds have a mandatory balloon payment due at final maturity.

Bond Defeasances

University of Minnesota

In prior years, U of M defeased general obligation bonds from various bond series by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt service payments on the old bonds. The amount defeased was \$432,725,000 with \$61,290,000 outstanding as of June 30, 2021. Neither the outstanding indebtedness nor the related trust account assets for this bond is included in U of M's financial statements as of June 30, 2021.

Housing Finance Agency

In May 2021, HFA issued \$49,022,000 of HFB 2021 B bond series which refunded \$6,890,000 of HFB 2009 A-5 bond series on June 1, 2021.

Note 14 – Segment Information

**Primary Government
Segment Information Financial Data
Year Ended June 30, 2021
(In Thousands)**

| Description | State Colleges and Universities (MnSCU) | |
|---|--|---------------------------|
| | Revenue Fund | Itasca Residence Halls |
| Condensed Statement of Net Position | | |
| Assets: | | |
| Current Assets | \$ 96,575 | \$ 767 |
| Noncurrent Assets | | |
| Restricted Assets | 57,377 | 303 |
| Capital Assets | 362,321 | 2,241 |
| Total Assets | \$ 516,273 | \$ 3,311 |
| Deferred Outflows of Resources | \$ 4,333 | \$ 18 |
| Liabilities: | | |
| Current Liabilities | \$ 39,678 | \$ 157 |
| Noncurrent Liabilities | 222,234 | 865 |
| Total Liabilities | \$ 261,912 | \$ 1,022 |
| Deferred Inflows of Resources | \$ 8,961 | \$ 60 |
| Net Position: | | |
| Net Investment in Capital Assets | \$ 156,686 | \$ 1,301 |
| Restricted | 93,047 | 303 |
| Unrestricted | — | 643 |
| Total Net Position | \$ 249,733 | \$ 2,247 |
| Condensed Statement of Revenues, Expenses, and Changes in Net Position | | |
| Operating Revenues - Customer Charges | \$ 82,216 | \$ 362 |
| Depreciation Expense | (24,271) | (119) |
| Other Operating Expenses | (68,991) | (301) |
| Operating Income (Loss) | \$ (11,046) | \$ (58) |
| Nonoperating Revenues (Expenses): | | |
| Federal Grants | \$ 20,863 | \$ 157 |
| Interest Income | 484 | 6 |
| Capital Contributions | 185 | — |
| Interest Expense | (8,007) | (34) |
| Others | 339 | — |
| Change in Net Position | \$ 2,818 | \$ 71 |
| Beginning Net Position | \$ 246,915 | \$ 2,176 |
| Ending Net Position | \$ 249,733 | \$ 2,247 |
| Condensed Statement of Cash Flows | | |
| Net Cash Provided (Used) by: | | |
| Operating Activities | \$ 150 | \$ 52 |
| Noncapital Financing Activities | 21,202 | 157 |
| Capital and Related Financing Activities | (32,947) | (168) |
| Investing Activities | 483 | 6 |
| Net Increase (Decrease) | \$ (11,112) | \$ 47 |
| Beginning Cash and Cash Equivalents | \$ 147,639 | \$ 661 |
| Ending Cash and Cash Equivalents | \$ 136,527 | \$ 708 |

The types of goods or services provided by each segment are as follows:

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, parking, and wellness purposes.
- MnSCU Itasca Residence Halls account for the construction of student housing at Itasca Community College.

Each segment has a revenue stream pledged to secure revenue bonds and provisions in the bond documents which require the separate reporting of each segment's financial operation and position.

Note 15 – Contingent Liabilities

University of Minnesota

The University of Minnesota (U of M), a component unit, issued state-secured revenue bonds to finance a football stadium on campus. In fiscal year 2006, the Minnesota Legislature appropriated from the General Fund \$10,250,000 per year not to exceed 25 years starting in fiscal year 2008 to pay a portion of the bonds. Grants from the General Fund are conditioned upon satisfaction of certain requirements by U of M. As of October 2021, there was \$59,190,000 outstanding on these bonds.

U of M issued state-secured revenue bonds to finance Biomedical Science Research facilities. In fiscal year 2008, the Minnesota Legislature appropriated from the General Fund amounts, amended in 2020, ranging from \$850,000 to \$15,550,000 per year for fiscal year 2010 to 2020, and up to \$13,930,000 per year beginning fiscal year 2021 through fiscal year 2039 to pay a portion of the bonds. Grants from the General Fund are conditioned upon satisfaction of certain requirements by U of M. As of October 2021, \$123,485,000 was outstanding on these bonds.

Housing Finance Agency

The Housing Finance Agency (HFA), a component unit, issued state-secured appropriation bonds to provide funds for rehabilitation, construction, and mortgage loans or to refund bonds to sponsors of residential housing for families of low and moderate income. In fiscal year 2008, the Minnesota Legislature appropriated from the General Fund up to \$2,400,000 per year for 22 years starting in fiscal year 2011 to pay a portion of the bonds. As of October 2021, there was \$19,060,000 outstanding on these bonds.

HFA issued state-secured appropriation bonds to finance housing infrastructure. In fiscal year 2012, the Minnesota Legislature appropriated from the General Fund up to \$2,200,000 per year starting in fiscal year 2014 through 2036 to pay a portion of the bonds. In fiscal year 2014, the Minnesota Legislature appropriated from the General Fund an additional \$6,400,000 per year beginning in fiscal year 2016 through 2038 to pay a portion of the bonds. In fiscal year 2015, the Minnesota Legislature appropriated from the General Fund an additional \$800,000 per year beginning in fiscal year 2018 through 2039 to pay a portion of the bonds. In fiscal year 2017, and as amended in 2018, the Minnesota Legislature appropriated from the General Fund up to an additional \$2,800,000 per year beginning in fiscal year 2020 through 2041. In fiscal year 2018, the Minnesota Legislature appropriated from the General Fund beginning in fiscal year 2021 through 2042 an amount sufficient to pay debt service on bonds. In fiscal year 2019, the Minnesota Legislature appropriated from the General Fund beginning in fiscal year 2023 through 2044 an amount sufficient to pay debt service on bonds. In fiscal year 2021, the Minnesota Legislature appropriated from the General Funding beginning in fiscal year 2023 through 2044 an amount sufficient to pay debt service on bonds. As of October 2021, \$328,980,000 was outstanding on these bonds. HFA issued state-secured appropriation bonds of \$76,970,000 in September 2021. See Note 22 – Subsequent Events.

School District Credit Enhancement Program

Minnesota Statutes 126C.55 established a school district credit enhancement program. If a school district is unable to pay its debt service due on school district and intermediate school district certificates of indebtedness, capital notes, certificate of participation, or general obligation bonds enrolled in the program, the Minnesota Legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the school district or intermediate school district, or the levy of an ad valorem tax which may be made with the approval of the commissioner of Education. The total amount of debt enrolled in the program as of September 2021, was \$16.8 billion. The state has not had to make any debt service payments on behalf of school districts or intermediate school districts under this program.

City and County Credit Enhancement Program

Minnesota Statutes 446A.086 established a city and county credit enhancement program. If a city or county is unable to pay its debt service due on general obligation bonds enrolled in the program issued for the construction, improvement, or rehabilitation of certain projects, the Minnesota Legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the city or county, or the levy of an ad valorem tax which may be made with the approval of the Public Facilities Authority (component unit). As of September 2021, the total general obligation bonds guaranteed by the state through 2051, was \$641.8 million.

Obligations of State Agencies

Minnesota State Armory Building Commission (MSABC) was established and is governed by Minnesota Statutes 193 which authorizes MSABC to issue bonds to finance the acquisition, construction, and equipment of National Guard armory buildings. In March 2021, the state signed a lease agreement with MSABC make the debt service payments from General Fund appropriations. Debt service payments begin in fiscal year 2022 and end in fiscal year 2041. At the end of the lease payments, the title transfers to the state. As of October 2021, \$5.8 million was outstanding in lease revenue armory bonds.

Note 16 – Equity

Restricted Net Position – Government-wide Statement of Net Position

The following table identifies the primary government’s restricted net position in greater detail than is presented on the face of the financial statements:

| Purpose of Restriction | Primary Government Restricted Net Position Balances As of June 30, 2021 (In Thousands) | | | Total |
|---|---|--|------------------------|---------------------|
| | Restricted by Constitution | Restricted by Enabling Legislation | Restricted by Other | |
| Improve Agricultural, Environmental, and Energy Resources | \$ 2,358,405 | \$ 356,761 | \$ 728,815 | \$ 3,443,981 |
| Enhance Arts and Culture | 44,861 | — | — | 44,861 |
| Acquire, Maintain, and Improve Land and Buildings | — | — | 288 | 288 |
| Retire Indebtedness | 410,115 | — | 118,658 | 528,773 |
| Develop Economy and Workforce | — | 199,342 | 4,465 | 203,807 |
| Enhance E-12 Education | — | 10,779 | 5,999 | 16,778 |
| Enhance State Government | — | 50,155 | 13,103 | 63,258 |
| Enhance Health and Human Services | — | 74,434 | 7,482 | 81,916 |
| Enhance Higher Education | — | 381 | 24,197 | 24,578 |
| Enhance 911 Services and Increase Safety | — | 7,128 | 98,259 | 105,387 |
| School Aid - Expendable | 9,242 | — | — | 9,242 |
| School Aid - Nonexpendable | 1,957,436 | — | 1,000 | 1,958,436 |
| Construct Highways and Improve Infrastructure | 1,714,312 | 62,942 | 1,627 | 1,778,881 |
| Other Purposes | — | — | 84,836 | 84,836 |
| Total Restricted Net Position | \$ 6,494,371 | \$ 761,922 | \$ 1,088,729 | \$ 8,345,022 |

Fund Balances – Primary Government

The following table identifies governmental fund balances of the primary government in greater detail than is presented on the face of the financial statements:

| Fund Balances | Governmental Funds Fund Balances As of June 30, 2021 (In Thousands) | | | Total |
|---|--|-------------------------------|-----------------------------------|---------------------|
| | General Fund | Major Special Revenue Fund | Nonmajor Governmental Funds | |
| Nonspendable: | | | | |
| Inventory | \$ — | \$ — | \$ 46,447 | \$ 46,447 |
| Trust or Permanent Fund Principal | 1,656,575 | — | 1,958,436 | 3,615,011 |
| Total Nonspendable Fund Balances | \$ 1,656,575 | \$ — | \$ 2,004,883 | \$ 3,661,458 |
| Purpose of Restriction: | | | | |
| Improve Agricultural, Environmental, and Energy Resources | \$ — | \$ 138 | \$ 1,808,006 | \$ 1,808,144 |
| Enhance Arts and Culture | — | — | 44,861 | 44,861 |
| Acquire, Maintain, and Improve Land and Buildings | — | — | 116,110 | 116,110 |
| Retire Indebtedness | — | — | 871,112 | 871,112 |
| Develop Economy and Workforce | 88,715 | — | 159,353 | 248,068 |
| Enhance E-12 Education | 2,315 | — | 23,124 | 25,439 |
| Enhance State Government | — | 9,060 | 52,830 | 61,890 |
| Enhance Health and Human Services | — | 3,605 | 76,654 | 80,259 |
| Enhance Higher Education | — | — | 379 | 379 |
| Enhance 911 Services and Increase Safety | — | — | 7,400 | 7,400 |
| Construct Highways and Improve Infrastructure | — | — | 1,765,563 | 1,765,563 |
| Total Restricted Fund Balances | \$ 91,030 | \$ 12,803 | \$ 4,925,392 | \$ 5,029,225 |

Continued

**Governmental Funds
Fund Balances (continued)
As of June 30, 2021
(In Thousands)**

| Fund Balances | Major Special <u>Revenue Fund</u> | | Nonmajor Governmental Funds | Total |
|---|--------------------------------------|------------------|-----------------------------------|----------------------|
| | General Fund | Federal Fund | | |
| Purpose of Commitment: | | | | |
| Improve Agricultural, Environmental and Energy Resources | \$ — | \$ — | \$ 204,667 | \$ 204,667 |
| Develop Economy and Workforce | — | — | 385,544 | 385,544 |
| Enhance E-12 Education | — | — | 16,351 | 16,351 |
| Enhance State Government | — | — | 89,342 | 89,342 |
| Enhance Health and Human Services | — | — | 11,648 | 11,648 |
| Enhance Higher Education | — | — | 2,631 | 2,631 |
| Enhance 911 Services and Increase Safety | — | — | 115,677 | 115,677 |
| Construct Highways and Improve Infrastructure | 69,968 | — | 53,564 | 123,532 |
| Total Committed Fund Balances | \$ 69,968 | \$ — | \$ 879,424 | \$ 949,392 |
| Purpose of Assignment: | | | | |
| Improve Agricultural, Environmental, and Energy Resources | \$ 513,092 | \$ — | \$ — | \$ 513,092 |
| Acquire, Maintain, and Improve Land and Buildings | — | — | 49,853 | 49,853 |
| Develop Economy and Workforce | 191,335 | — | — | 191,335 |
| Enhance E-12 Education | 58,592 | — | — | 58,592 |
| Enhance State Government | 73,060 | — | — | 73,060 |
| Enhance Health and Human Services | 919,280 | — | — | 919,280 |
| Enhance Higher Education | 28,685 | — | — | 28,685 |
| Enhance 911 Services and Increase Safety | 90,233 | — | — | 90,233 |
| Construct Highways and Improve Infrastructure | 10,819 | — | — | 10,819 |
| Total Assigned Fund Balances | \$ 1,885,096 | \$ — | \$ 49,853 | \$ 1,934,949 |
| Unassigned | \$ 5,205,205 | \$ 4,783 | \$ — | \$ 5,209,988 |
| Total Fund Balances | \$ 8,907,874 | \$ 17,586 | \$ 7,859,552 | \$ 16,785,012 |

Net Position Deficits

The following funds have net position deficits for the fiscal year ended June 30, 2021:

| Fund Type | Net Position |
|---|--------------|
| Net Position Deficits As of June 30, 2021 (In Thousands) | |
| Major Enterprise Funds: | |
| Unemployment Insurance | \$ (775,179) |
| Nonmajor Enterprise Funds: | |
| Behavioral Services | \$ (6,253) |
| State Lottery | (13,152) |
| State Operated Community Services | (31,400) |
| Internal Service Funds: | |
| Central Services | \$ (1,524) |
| MN.IT Services | (53,291) |

A \$775,179,000 total fund balance deficit in the Unemployment Insurance Fund (enterprise fund) is a result of increased unemployment benefit claims. A federal Title XII advance was received to offset the deficit. The advance will be paid back through receipt of unemployment insurance taxes and assessments over the next five years. See Note 12 – Long-Term Liabilities - Primary Government for more information.

GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” required the recording of the net pension liability and the deferred inflows and outflows of resources associated with pensions and GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions” (OPEB) required recording changes of total OPEB liability along with the inflows and outflows and expense associated with OPEB. The implementation of these generally accepted accounting principles caused the nonmajor enterprise and internal services funds noted in the table above to end fiscal year 2021 in a deficit net position. The actuarially determined amounts are likely to vary significantly from year to year and are managed by the retirement systems and the Minnesota Legislature to ensure the defined benefit plans are adequately funded to pay plan benefits to employees participating as they become due.

Note 17 – Risk Management

Primary Government

The state is exposed to various risks of loss related to torts, to theft of, damage to, or destruction of assets; to errors and omissions; and to employer obligations. The state manages these risks through the Risk Management Fund (internal service fund), a self-insurance fund, and other insurance and self-funding mechanisms. All health plans are self-insured.

Risk Management Fund

State agencies may elect to participate in the Risk Management Fund, which offers auto, liability, property, and related coverage. The agencies pay a premium to participate in this coverage. All agencies that own state vehicles are required to purchase automobile liability coverage from the fund.

The property coverage offers an agency a range of deductibles from \$1,000 through \$250,000 per loss. The fund covers the balance of the claim up to \$1,000,000 and co-participates with the reinsurance carriers by covering an additional 25 percent of the first \$10,000,000 of each loss. The reinsurance carriers provide coverage up to \$1,000,000,000. Once annual aggregate losses paid by the Risk Management Fund reach \$2,500,000 in any one fiscal year, the reinsurer will provide coverage in excess of a \$100,000 deductible for each additional claim with the Risk Management Fund's continued co-participation of 25 percent of the first \$10,000,000 on each loss. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the Minnesota Legislature.

The liability coverage is up to the statutory limit (tort claims cap) of \$500,000 bodily injury and property damage per person, and \$1,500,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides \$10,000,000 excess of a \$1,000,000 retention to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state jurisdiction.

The Risk Management Fund purchases insurance policies for state agencies seeking insurance for specialized insurance needs for which the state does not self-insure. These coverages include aviation, medical malpractice, and travel accident insurance. The premiums for these policies are billed back to the agencies at cost.

Minnesota Statutes 15.38, Subdivision 8, permits the purchase of insurance on state-owned buildings and contents.

All losses of state property are covered by programs of the Risk Management Fund, by insurance policies purchased in the commercial market, or are uninsured and become the liability of the state.

Tort Claims

State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget. The Minnesota Legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the Minnesota Legislature. Tort claims brought outside Minnesota state jurisdiction and in federal court have unlimited liability exposure.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation-related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation insurance program, including workplace safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of \$2,000,000.

The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. State agencies may participate in either a 'pay-as-you-go' revolving fund or a premium pool cost allocation fund. These costs are paid from each agency's operating budget.

The state estimates the liability for reported claims that have not yet been settled. These costs include anticipated indemnity and medical benefits related to the reported claim.

State Employee Group Insurance Program (SEGIP)

The Minnesota Legislature created the Employee Insurance Fund (internal service fund) dedicated solely for the purpose of this program. The fund is administered by SEGIP, to provide eligible employees and other eligible persons with life insurance and hospital, medical, and dental coverage through provider organizations. The Employee Insurance Fund is not associated with any other public risk pools. A contingency reserve is maintained to increase the controls over medical plan provisions and other insurance costs for the purpose of moderating premium and claim fluctuations, and to assume all inherent risk associated with the self-funded insurance programs, which would also include losses to the fund.

SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the state. SEGIP had settlements of \$476,349 greater than coverage during the fiscal year ended June 30, 2021.

In January 2000, the fund became fully self-insured for medical coverage and assumed all liability for medical claims. The self-funded programs within the fund establish claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not paid and of claims that have been incurred but not reported. These estimates are agreed to by the insurance carriers and the state and are reviewed for accuracy and reasonableness. The estimates are based on claim experience and claim lag timetables provided by the carriers and do not include additional estimates for subrogation, salvage, or unallocated claim adjustments.

Public Employees Insurance Program

The Public Employees Insurance Program (PEIP) is a public entity risk pool currently operating as an insurance program in the Public Employees Insurance Fund (enterprise fund). The risk pool was created by the Minnesota Legislature to provide public employees and other eligible persons with life insurance and hospital, medical, and dental coverage to result in a greater utilization of government resources and advance the health and welfare of the citizens of the state. The enabling legislation for PEIP is Minnesota Laws of 1987, codified as Minnesota Statutes 43A.316. Beginning in fiscal year 1998, medical benefits provided through PEIP became a self-insured program.

PEIP's membership as of June 30, 2021, was 30,120 members and their dependents. The members of the pool include 187 school districts, 156 cities/townships, 22 counties, and 86 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program

administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums. Stop-loss coverage was discontinued effective January 1, 2015.

The pool establishes claims liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported.

**Primary Government
Self-Insured Claims Liability
(In Thousands)**

| Description | Beginning Claims Liability | Net Additions and Changes in Claims | Payment of Claims | Ending Claims Liability |
|--|----------------------------|-------------------------------------|-------------------|-------------------------|
| Risk Management Fund: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ 11,891 | \$ 3,242 | \$ 5,148 | \$ 9,985 |
| Fiscal Year Ended 6/30/2021 | \$ 9,985 | \$ 6,478 | \$ 4,974 | \$ 11,489 |
| Tort Claims: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ — | \$ 273 | \$ 273 | \$ — |
| Fiscal Year Ended 6/30/2021 | \$ — | \$ 441 | \$ 441 | \$ — |
| Workers' Compensation: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ 75,231 | \$ 22,826 | \$ 20,930 | \$ 77,127 |
| Fiscal Year Ended 6/30/2021 | \$ 77,127 | \$ 27,914 | \$ 23,991 | \$ 81,050 |
| State Employee Group Insurance: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ 77,247 | \$ 863,099 | \$ 861,165 | \$ 79,181 |
| Fiscal Year Ended 6/30/2021 | \$ 79,181 | \$ 943,263 | \$ 934,405 | \$ 88,039 |

**Primary Government
Public Employees Insurance Program
Medical Claims
(In Thousands)**

| Description | Year Ended June 30 | |
|--|--------------------|------------|
| | 2021 | 2020 |
| Unpaid Claims and Claim Adjustment Expenses, Beginning | \$ 24,880 | \$ 17,621 |
| Incurred Claims and Claim Adjustment Expenses: | | |
| Provision for Insured Events of Current Year | \$ 314,643 | \$ 247,273 |
| Increases (Decreases) in Provision for Insured Events of Prior Years | (496) | (906) |
| Total Incurred Claims and Claim Adjustment Expenses | \$ 314,147 | \$ 246,367 |
| Payments: | | |
| Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year | \$ 284,132 | \$ 223,215 |
| Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years | 23,740 | 15,893 |
| Total Payments | \$ 307,872 | \$ 239,108 |
| Total Unpaid Claims and Claim Adjustment Expenses, Ending | \$ 31,155 | \$ 24,880 |

Component Units

Housing Finance Agency

The Housing Finance Agency (HFA) is exposed to various insurable risks of loss related to tort, theft of, damage to, or destruction of assets; to errors or omissions; and to employer obligations. HFA manages these risks through the primary government's insurance plans including the primary government's Risk Management Fund (internal service fund) and through purchased insurance coverage. HFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years. HFA participates in SEGIP, which is administered by the Employee Insurance Fund (internal service fund). This program provides life insurance and hospital, medical, and dental coverage through provider organizations. HFA also participates in the primary government's Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims.

Metropolitan Council

The Metropolitan Council (MC) is exposed to various risks of loss related to torts, to theft of, damage to, and destruction of assets; to errors and omissions; and to employer obligations. MC both purchases commercial insurance and self-insures for these risks of loss. MC has not experienced any significant reductions in insurance coverage from the prior year. MC has not had any settlements in excess of commercial coverage for the past three years.

MC purchases general liability insurance to protect all divisions of MC and recognizes a current liability for incurred, reported claims, and a long-term liability for claims incurred but not reported. Claims liabilities are calculated considering recent claim settlement trends including frequency and amount of payouts. Minnesota Statutes 466.04 generally limits MC's tort exposure to \$500,000 per claim and \$1,500,000 per occurrence for a claim arising on or after July 1, 2009. For claims arising earlier, the limits are \$400,000 per claim and \$1,200,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using the 30-year Treasury yield. The self-insurance retention limit for workers' compensation is \$5,000,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

MC claims include both workers' compensation claims and \$0 for the Family Self Sufficiency Program escrow accounts.

University of Minnesota

The University of Minnesota (U of M) is insured for professional, general, non-profit organization, and automobile liability and indemnified for property insurance deductible expenditures through RUMINCO, Ltd., a wholly-owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims using a discount rate of 0.29 percent.

U of M is also self-insured for workers' compensation through an internally maintained fund. The internal fund for workers' compensation is maintained only to fund current year expected payouts. Excess insurance is maintained through the Workers' Compensation Reinsurance Association. Each year, an actuarial estimate of U of M's liability for workers' compensation is compiled and recorded, however the liability is not funded in a separate reserve.

U of M's medical (health) and dental coverage for faculty and staff is a self-insured program. Under the plan, U of M pays claims, while the administration of the program is handled by three independent administrators. U of M's graduate assistant medical plan and student health plan are also self-insured. Each year, an actuarial estimate of U of M's liability for medical claims, including incurred but not reported claims, is recorded.

| Description | Component Units Claims Liability (In Thousands) | | | |
|---|---|-------------------------------------|-------------------|-------------------------|
| | Beginning Claims Liability | Net Additions and Changes in Claims | Payment of Claims | Ending Claims Liability |
| Metropolitan Council - Workers' Compensation: | | | | |
| Fiscal Year Ended 12/31/2019 | \$ 20,327 | \$ 18,543 | \$ 8,906 | \$ 29,964 |
| Fiscal Year Ended 12/31/2020 | \$ 29,964 | \$ 5,864 | \$ 6,473 | \$ 29,355 |
| University of Minnesota - RUMINCO, Ltd: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ 7,246 | \$ 1,465 | \$ 1,097 | \$ 7,614 |
| Fiscal Year Ended 6/30/2021 | \$ 7,614 | \$ 1,468 | \$ 1,030 | \$ 8,052 |
| University of Minnesota - Workers' Compensation: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ 12,050 | \$ 3,493 | \$ 3,384 | \$ 12,159 |
| Fiscal Year Ended 6/30/2021 | \$ 12,159 | \$ 3,472 | \$ 3,969 | \$ 11,662 |
| University of Minnesota - Medical/Dental: | | | | |
| Fiscal Year Ended 6/30/2020 | \$ 40,261 | \$ 305,308 | \$ 309,508 | \$ 36,061 |
| Fiscal Year Ended 6/30/2021 | \$ 36,061 | \$ 321,224 | \$ 323,762 | \$ 33,523 |

Note 18 – Budgetary Basis vs. GAAP

Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund, and loan transactions. In addition, encumbrances are recognized as expenditures in the year encumbered on a budgetary basis. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. The GAAP General Fund also includes several funds that are not included in the budgetary General Fund. A reconciliation of the fund balances under the two bases of accounting for the General Fund is provided in the following table.

| General Fund Reconciliation of GAAP Basis Fund Balance to Budgetary Fund Balance As of June 30, 2021 (In Thousands) | |
|---|--------------|
| Description | Amount |
| GAAP Basis Fund Balance | \$ 8,907,874 |
| Less: Encumbrances ⁽¹⁾ | 359,746 |
| Unassigned Fund Balance | \$ 8,548,128 |
| Basis of Accounting Differences: | |
| Revenue Accruals/Adjustments: | |
| Taxes Receivable | \$ (681,762) |
| Tax Refunds Payable | 522,931 |
| Human Services Receivable | (219,685) |
| Unearned Revenue | 143,394 |
| Escheat Asset | (49,454) |
| Other Receivables | (24,626) |
| Permanent School Fund Reimbursement | (2,000) |
| Investments at Market | (10,608) |
| Expenditure Accruals/Adjustments: | |
| Medical Care Programs | 915,540 |
| Human Services Grants Payable | 69,992 |
| Education Aids | 1,004,448 |
| Police and Fire Aid | 116,392 |
| Other Payables | 46,394 |
| Other Financial Sources (Uses): | |
| Transfers-In | (15,913) |
| Transfers-Out | 9,381 |
| Perspective Differences: | |
| Account with no Legally Adopted Budget | (2,679,052) |
| Appropriation Carryover | (116,747) |
| Long-Term Receivables | (44,951) |
| Budgetary Reserve | (2,863,061) |
| Budgetary Basis: | |
| Unassigned Fund Balance | \$ 4,668,741 |

⁽¹⁾ Encumbrances related to funds included in the budgetary General Fund.

Note 19 – Litigation

Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable, or from funds appropriated for the payment of tort claims. The Tort Claims appropriations for each of the fiscal years ending June 30, 2020 and 2021 are \$761,000. The maximum limit of liability for tort claims arising out of a single occurrence in Minnesota on or before January 1, 2000, and before January 1, 2008, is \$1,000,000. The maximum limited liability for any one claim is \$300,000 for claims arising before August 1, 2007, and \$400,000 for claims arising on or after August 1, 2007, and before July 1, 2009, for any one claim and the maximum limits of liability for tort claims arising in Minnesota on or after January 1, 2008, and prior to July 1, 2009, is \$1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after July 1, 2009, the maximum limits are \$500,000 for any one claim and \$1,500,000 for any number of claims arising out of a single occurrence.

Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over \$15 million in excess of current levels.

- At any one time, there are hundreds of Minnesota Department of Transportation (MnDOT) eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department, and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds \$15 million. Liability arising out of decisions unfavorable to the state may impact the state's Trunk Highway Fund (special revenue fund).
- The Jamar Company d/b/a Asdco v. State of Minnesota, et al. (Itasca County District Court) and Hammerlund Construction Inc., et al. v. State of Minnesota, et al. (Itasca County District Court). These mechanics' lien suits involve similar claims but different tax-forfeited properties in Itasca County. The subject properties were leased for mining purposes by Itasca County to Magnetation LLC ("Magnetation"), which filed for chapter 11 bankruptcy in May 2015. The state is a named defendant in these suits because it owns the subject properties in trust for Itasca County, the taxing district, which has the authority to manage the properties. Jamar, Hammerlund, and approximately 20 other contractors and subcontractors, which supplied materials and/or labor to the properties for Magnetation, have filed claims and cross-claims against the state and the other defendants that total approximately \$22.2 million exclusive of interest and attorneys' fees. Magnetation disposed of substantially all of its assets in bankruptcy through a sale in December 2016 to an entity called ERP Iron Ore, LLC ("ERP"). The mechanic's liens asserted by the contractors and subcontractors, as described above, were deemed permitted encumbrances on the assets, which ERP agreed to assume as a condition of the sale to permit the suits to continue. Before any further resolution of the mechanic's lien cases, ERP itself became a chapter 7 bankruptcy debtor in May 2018.
- Murphy, et al. v. Minnesota Department of Human Services (DHS) et al. (United States District Court, District of Minnesota). The plaintiffs receive Medicaid Home and Community Based Waiver Services (HCBS) programs and raised claims under the Medicaid Act, the Fourteenth Amendment, the Americans with Disabilities Act, and the Rehabilitation Act, seeking, among other things, access to "individualized housing services." The Defendant's motion to dismiss was denied, and the district court certified a class. Although the exact relief the class seeks is unclear, at a minimum they

contend DHS over relies on Community Residential Settings and must facilitate individualized housing and other services for each waiver recipient. The Court granted Plaintiffs' partial motion for summary judgment on their notice claim under the Medicaid Act and procedural due process, but declined to issue an injunction. The Court also denied the Defendant's motions for summary judgment and for class decertification. The parties are currently conducting Court-ordered supplemental discovery, and the Court has scheduled the case to be trial-ready on May 16, 2022, absent settlement.

- Joseph Walsh, et al. v. State of Minnesota (Minnesota Supreme Court). County Attorney Walsh and Sheriff Lorge are defendants in a federal lawsuit brought by the Mille Lacs Band of Ojibwe that challenges their prosecutorial and law-enforcement actions taken on behalf of the state in their official capacities, and seeks recognition of a reservation the Band ceded in 1863 and 1864 treaties. Appellants filed this lawsuit against the State of Minnesota, demanding that the state defend and indemnify them instead of their county employer. The district court granted the state's motion to dismiss because Minnesota law clearly makes counties responsible for defending and indemnifying their officials. The county attorney and county sheriff appealed. The Minnesota Court of Appeals affirmed on May 10, 2021. A Petition for Review was granted by the Minnesota Supreme Court and oral argument is set for December 6, 2021. The ramifications of a loss would cost the state well over \$15 million because of the cost to defend and indemnify county actions.
- E.I du Pont de Nemours and Company v. Commissioner of Revenue (Minnesota Tax Court). This case involves a corporate franchise tax assessment against the DuPont Chemical Company and a dispute about which transactions should be included in computing the company's apportionment factor. The apportionment factor is computed by dividing Minnesota sales by sales everywhere. The company's net income is then multiplied by the apportionment factor. At issue is the proper treatment of forward exchange contracts ("FECs"), involved in currency trading. DuPont includes the gross revenue from the FECs in its everywhere sales, which for the assessment period, reduced its apportionment factor by 72%. The Department of Revenue excluded the FECs income. FECs are one type of a derivative contract and an adverse court decision could have a broad impact by allowing the inclusion of all forms of derivative contracts to calculate the apportionment factor used to calculate a multi-state's corporate franchise tax liability to Minnesota. It is estimated that an adverse decision could result in refunds to DuPont and other corporations subject to Minnesota corporate franchise tax of \$85,700,000 payable in fiscal year 2023. Trial is not scheduled to occur until after November 18, 2022.

Note 20 – Tax Abatements

The state of Minnesota provides tax abatement agreements through four programs operated by the Minnesota Department of Employment and Economic Development, Minnesota Department of Administration, and Minnesota Department of Revenue: Greater MN Job Expansion Program, Border City Enterprise Zones, Angel Tax Credit, and Historic Structure Rehabilitation Credit. Minnesota Statutes 270B.02 classifies tax return information as private data. As the population of program participants is so small, reporting aggregate data may identify individual taxpayers, except for the Border City Enterprise Zones program and the Angel Tax Credit program.

The Greater MN Job Expansion Program provides sales tax abatements to expand employment within cities in greater Minnesota. Qualified businesses are eligible for a sales tax exemption up to \$5 million annually, and \$40 million during the agreement period. The agreement period is seven years after a business is certified, except for businesses investing at least \$200 million over a ten-year period, in which case the agreement period is ten years. A qualified business must have operated in greater Minnesota for at least one year prior to applying, agree to pay employees, including benefits, on an annualized basis equal to at least 120 percent of the federal poverty level for a family of four, increase the number of full-time equivalent employees by two employees or ten percent, whichever is greater, and enter into a subsidy agreement with the state that pledges to satisfy the employment expansion within three years. The subsidy agreements include recapture provisions. The authority for the sales tax abatement is Minnesota Statutes 116J.8738.

The Border City Enterprise Zones program provides tax abatements to partially mitigate the effects of disparate taxation of businesses in six cities located near neighboring states as incentives to attract and retain businesses in Minnesota. Taxes abated include: sales taxes, income taxes, or property taxes. Border cities establish eligibility criteria of recipient business, provided that business is not prohibited by Minnesota Statutes 469.171, Subdivision 4. Sales taxes are reduced through exemptions on construction materials and equipment. Income taxes are reduced as credits for additional workers employed within the zone, up to \$3,000 per employee per year. Additionally, income taxes are reduced as a credit for a percentage of cost of debt financing for construction. Property taxes are reduced as a credit for a portion of property tax paid by new facilities as determined by the border city based on its eligibility criteria. The total amount of tax abatements is determined through allocations to each border city defined in Minnesota Statutes. Prior to entering a tax abatement agreement with a business, the border city must submit the proposed tax reductions to the Minnesota Department of Employment and Economic Development to evaluate the proposed investment the business will make in the border city, the number and quality of new jobs created, the overall positive economic impact within the border city, and the extent that economic benefits are dependent on the tax abatements to the business. Businesses must maintain operation within the border city. Businesses which receive tax abatements that cease to operate within the border city must repay the tax abatements received during the prior two years; other recapture provisions may exist between the border city and the business. The authority for Border City Enterprise Zone tax abatements are Minnesota Statutes 469.166-469.1735.

The Angel Tax Credit program provides income tax abatements as an incentive for investors to make investments in start-up businesses by helping to raise the equity financing needed to further business growth and the potential to create jobs. Qualified investors are eligible for up to 25 percent of the investment made and must receive an annual certification to make investments in a qualified small business. Qualified investors are required to hold investments in a qualified business for a period of at least three years. If a qualified investor does not meet the three years holding requirement, the investor must repay the income tax credit. A qualified small business must satisfy all the following conditions: be headquartered in Minnesota, have at least 51 percent of its employees and payroll in Minnesota, and be engaged in or committed to engage in innovation in Minnesota. The primary business activity must be in a qualified field of technology, agriculture, tourism, forestry, mining, manufacturing, or transportation. The

business must have fewer than 25 employees and must pay employees annual wages of at least 175 percent of federal poverty guidelines for a family of four. The business may not have previously received private equity investments of more than \$4 million, be disqualified under Minnesota Statutes 80A.50, or issued securities traded on a public exchange. The business may not have been in operation for more than ten years, or more than twenty years if the business is engaged in the research, development, or production of medical devices or pharmaceuticals for which Food and Drug Administration approval is required. If it is determined that a qualified business did not maintain at least 51 percent of its employees and payroll in Minnesota during the first five years following its most recent qualified investment, the business must repay the income tax credit provided to its investors based on a fixed percentage scale. The program was extended to sunset after the calendar year 2022, except for some reporting requirements. The authority for the tax abatement is Minnesota Statutes 116J.8737.

The Historic Structure Rehabilitation Credit program incentivizes substantial reinvestment in the development of historic buildings listed on the National Register of Historic Places. This program parallels the Federal Rehabilitation Tax Credit and state tax credits are limited by the federal amount. A project is eligible for the program if the property is listed on the National Register of Historic Places or is certified as contributing to a National Register Historic District, or Certified Historic District. The owner must apply for the credit prior to the start of construction, plans must be approved by the National Park Service (NPS), and the work must meet the "substantial rehabilitation test." The completed work must be approved by the NPS and be allowed the federal tax credit. The qualified historic structure must be used as an income producing property for at least five years after the construction is completed. Investors will be eligible for a tax credit or the option of a grant in lieu of tax in the year the renovated building is placed in service. The program was extended to sunset after the fiscal year 2022. The authority for the tax abatement is Minnesota statutes 290.0681.

Tax Abatements Year Ended June 30, 2021 (In Thousands)

| Description | Amount |
|------------------------------------|----------|
| Border City Enterprise Zones: | |
| Corporate Taxes | \$ 99 |
| Income Taxes | 105 |
| Total Border City Enterprise Zones | \$ 204 |
| Angel Tax Credit: Income Taxes | \$ 6,179 |
| Total | \$ 6,383 |

Note 21 – Prior Period Adjustment, Change in Accounting Principle, and Change in Reporting Entity

Primary Government

Prior Period Adjustment

During fiscal year 2021, the state made decisions to apply part of the Federal Coronavirus Relief funds received in fiscal year 2020 to fiscal year 2020 General Fund expenditures, which resulted in an \$87,719,000 prior period adjustment in the state's General Fund statement of revenues, expenditures, and changes in fund balance and governmental activities in the statement of activities.

Change in Accounting Principle

During fiscal year 2021, the state implemented GASB Statement No. 84 "Fiduciary Activities" which established criteria for identifying fiduciary activity and requires state and local governments to present a statement of fiduciary net position and a statement of changes in fiduciary net position for all fiduciary funds. As a result of implementing this statement, most activity included in the state's Agency Fund is included in the Custodial Fund, a new fiduciary fund type, and resulted in a change in accounting principle of \$41,512,000 in the Custodial Fund. The activity required to move from fiduciary activities to other state funds resulted in changes in accounting principle as follows: a net increase of \$5,446,000 in governmental activities on the government-wide statement of activities, an increase of \$2,101,000 and \$3,861,000 in governmental funds statement of revenues, expenditures and changes in fund balances for the General and Federal funds respectively and a decrease of \$516,000 for the governmental nonmajor funds relating to the Miscellaneous Special Revenue Fund (special revenue fund).

Change in Reporting Entity

Minnesota Statutes 353G allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2021, seven firefighter groups joined the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association. Investment balances of \$1,681,000 were reported as a change in reporting entity in the Volunteer Firefighter Retirement Fund.

Minnesota Statutes 424A allows volunteer firefighter relief associations to be covered by the Supplemental Retirement Fund (investment trust fund). During fiscal year 2021, one volunteer firefighter relief association became part of the Supplemental Retirement Fund managed by the board of trustees of each relief association. Investment balances of \$7,000 were reported as a change in reporting entity in the Supplemental Retirement Fund.

Component Units

Change in Accounting Principle

During fiscal year 2021, the University of Minnesota (U of M) also implemented GASB Statement No. 84 "Fiduciary Activities." The beginning balance was reported as a change in accounting principle in U of M's Statement of Activities as an increase in net position of \$5,593,000.

Note 22 – Subsequent Events

The nation, including the state, continues to be in a pandemic due to COVID-19. The state and the state's component units continue to experience significant financial impact due to this pandemic. The extent and duration of the financial impact cannot be fully estimated. For further discussion of the pandemic, see the Management's Discussion and Analysis.

Primary Government

In September 2021, the state issued \$565.2 million of general obligation state various purpose bonds Series 2021A at a true interest rate of 1.71 percent and \$311.0 million of general obligation state trunk highway bonds Series 2021B at a true interest rate of 1.49 percent. These bonds are backed by the full faith and credit and taxing powers of the state.

In October 2021, the state issued \$52.5 million of state General Fund appropriation bonds taxable Series 2021A. The bonds are issued for four purposes: financing public infrastructure projects to facilitate redevelopment with a newly created regional exchange district in the City of Duluth for \$6.9 million at a true interest rate of 2.36 percent, financing the cost of implementing environmental clean-up actions at four Superfund sites in Minnesota for \$29.7 million at a true interest rate of 2.36 percent, financing grants to public television stations in Minnesota for the cost of acquiring and installing capital equipment for \$14.0 million at a true interest rate of 1.70 percent, and financing the cost of acquiring and installing electronic vehicle charging infrastructure on state-owned property for \$1.9 million at a true interest rate of 1.70 percent. For more information, see Note 12 – Long-Term Liabilities - Primary Government.

In August 2021, the state issued \$41.3 million of refunding revenue bonds Series 2021A at a true interest rate of 0.73 percent. This issuance will refund the Series 2009A and Series 2011C revenue bonds. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees in the State Colleges and University Fund (enterprise fund).

In September 2021, the state entered into a loan agreement for \$11.9 million to purchase energy efficiency improvements and equipment. The capital assets purchased for energy efficiency improvements and equipment purchases are pledge as collateral on the loans incurred to finance the purchases in the State Colleges and University Fund (enterprise fund).

Component Units

Housing Finance Agency

In September 2021, the Housing Finance Agency (HFA) issued \$4.5 million state appropriation bonds (Housing Infrastructure) Series 2021A, \$16.2 million Series 2021B, \$38.4 million Series 2021C, and \$17.9 million Series 2021D. The proceeds of the bonds will be used to provide money to fund housing infrastructure loans and to pay the costs of issuance of the Series Bonds. For information on the state appropriation for these bonds, see Note 15 – Contingent Liabilities.

HFA made, or committed to make, draws from index bank notes subsequent to June 30, 2021 totaling \$91.7 million.

In August 2021, HFA issued \$61.8 million homeownership finance taxable bonds Series 2021C.

In September 2021, HFA issued \$7.8 million rental housing bonds Series 2021C, \$15.7 million residential housing finance bonds Series 2021E, and \$134.3 million residential housing finance bonds Series 2021F.

HFA called for the redemption or repayment of bonds for homeownership finance, residential housing, and rental housing programs totaling \$174.8 million subsequent to June 30, 2021.

Metropolitan Council

In January 2021, Metropolitan Council (MC) agreed to a \$50 million loan Series 2021A from the Minnesota Public Facilities Authority (component unit) for financing eligible capital expenditures.

In May 2021, a Federal assistance grant agreement under the Coronavirus Response and Relief Supplemental Appropriations Act was executed and awarded to MC for \$185.9 million. The funding will be used to provide transit services that help the community recover from the severe social and economic impacts of COVID-19.

In May 2021, MC issued \$174.8 million general obligation grant anticipation notes Series 2021B and \$181.4 million general obligation grant anticipation notes Series 2021C.

In May 2021, MC issued \$3.1 million general obligation park bonds Series 2021D, \$3.1 million taxable general obligation park bonds Series 2021E, and \$101.3 million taxable general obligation wastewater revenue refund bonds Series 2021F.

University of Minnesota

In July 2021, the University of Minnesota (U of M) entered into a 364-day credit agreement with a major bank providing a \$150 million line of credit for general operating purposes and as liquidity support for U of M indebtedness. No funds have been drawn as of the date of U of M's annual financial report and the agreement was not extended or renewed.

In September 2021, U of M issued \$92.4 million special purpose revenue refunding bonds Series 2021A. The proceeds will be used to refund, on a current refunding basis, the outstanding maturities of Series 2010A and Series 2011B bonds.

In September 2021, U of M issued \$31.1 million special purpose revenue taxable refunding bonds Series 2021B. The proceeds will be used to defease and advance refund the Series 2013C bonds.

In September 2021, U of M issued \$36.9 million general obligation taxable bonds Series 2021C. The proceeds will be used to finance portion of the costs of design, land acquisition, and other services for a research facility.



2021 Annual Comprehensive Financial Report Required Supplementary Information

Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 3,000 bridges and tunnels maintained by the state.

To utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Lane Miles of Pavement

Measurement Scale

The Minnesota Department of Transportation (MnDOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking), and the PQI is a composite index equal to the square root of the PSR multiplied by the square root of the SR.

The five qualitative categories used to describe pavement condition are shown in the table below:

| Description | PQI Range | PSR Range | SR Range |
|-------------|-----------|-----------|-----------|
| Very Good | 3.7 - 4.5 | 4.1 - 5.0 | 3.3 - 4.0 |
| Good | 2.8 - 3.6 | 3.1 - 4.0 | 2.5 - 3.2 |
| Fair | 1.9 - 2.7 | 2.1 - 3.0 | 1.7 - 2.4 |
| Poor | 1.0 - 1.8 | 1.1 - 2.0 | 0.9 - 1.6 |
| Very Poor | 0.0 - 0.9 | 0.0 - 1.0 | 0.0 - 0.8 |

The PQI is used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher, and all other pavements will be maintained at 2.8 PQI (good) or higher.

Assessed Conditions

The state assesses condition on 100 percent of the pavement surfaces at least once every two years.

| Description | 2020 | 2019 | 2018 |
|------------------------------------|------|------|------|
| Principal Arterial Average PQI | 3.6 | 3.5 | 3.5 |
| Non-Principal Arterial Average PQI | 3.4 | 3.3 | 3.3 |

Bridges and Tunnels

Measurement Scale

MnDOT utilizes three performance measures to maintain and improve the bridge system: Structural Condition Rating, Geometric Rating, and Posted Bridge and Bridge Load Carrying Capacity. The Structural Condition Rating is used to determine if the bridge system is being maintained at a serviceable level for the condition of the bridges under MnDOT’s jurisdiction.

The Structural Condition Rating is a broad measure of the structural condition of a bridge. Each bridge is rated as Good, Fair, or Poor by using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings to place each bridge in a category.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. Both the condition codes and the appraisal ratings use a scale of 0 (failed) through 9 (excellent).

| Rating | Description |
|--------|---|
| 9 | Excellent. |
| 8 | Very good. |
| 7 | Good. Some minor problems. |
| 6 | Satisfactory. Structural elements show some minor deterioration. |
| 5 | Fair. All primary structural elements are sound, but may have some minor section loss, cracking, spalling, or scour. |
| 4 | Poor. Advanced section loss, deterioration, spalling, or scour. |
| 3 | Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present. |
| 2 | Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken. |
| 1 | Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service. |
| 0 | Failure. Out of service, beyond corrective action. |

The criteria for placing a bridge in each of the three categories are as follows:

| Rating | Description |
|--------|---|
| Good | If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater. |
| Fair | If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5. |
| Poor | If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient. |

Established Condition Level

Ninety-two percent of principal arterial system bridges will be maintained at fair to good, while 80 percent of all other system bridges will also be maintained at fair to good.

Assessed Conditions

| Description | 2020 | 2019 | 2018 |
|----------------------------------|-------|-------|-------|
| Principal Arterial: Fair to Good | 94.6% | 94.4% | 94.6% |
| All Other Systems: Fair to Good | 94.0% | 94.0% | 94.1% |

Budgeted and Estimated Costs to Maintain

The following table presents the state’s estimate of spending necessary to preserve and maintain the pavement and bridges at, or above, the established condition levels cited above, and the actual amount spent (in thousands):

| | | Costs to be Capitalized | | | Maintenance of System | | | Total Construction Program |
|--------|------|-------------------------|------------|-------------|-----------------------|------------|-------------|----------------------------|
| | | Bridges | Pavement | Total Costs | Bridges | Pavement | Total Costs | |
| Budget | 2021 | \$ 65,300 | \$ 472,400 | \$ 537,700 | \$ 95,600 | \$ 660,700 | \$ 756,300 | \$ 1,294,000 |
| | 2020 | 76,000 | 364,000 | 440,000 | 84,800 | 712,200 | 797,000 | 1,237,000 |
| | 2019 | 97,000 | 260,000 | 357,000 | 126,000 | 719,000 | 845,000 | 1,202,000 |
| | 2018 | 100,000 | 210,000 | 310,000 | 100,000 | 600,000 | 700,000 | 1,010,000 |
| | 2017 | 149,000 | 376,000 | 525,000 | 100,000 | 500,000 | 600,000 | 1,125,000 |
| Actual | 2021 | \$ 50,887 | \$ 505,490 | \$ 556,377 | \$ 85,859 | \$ 635,307 | \$ 721,166 | \$ 1,277,543 |
| | 2020 | 71,650 | 405,796 | 477,446 | 78,244 | 736,188 | 814,432 | 1,291,878 |
| | 2019 | 108,876 | 294,126 | 403,002 | 113,009 | 717,340 | 830,349 | 1,233,351 |
| | 2018 | 64,253 | 200,064 | 264,317 | 121,831 | 615,727 | 737,558 | 1,001,875 |
| | 2017 | 114,106 | 337,294 | 451,400 | 84,046 | 526,975 | 611,021 | 1,062,421 |

Defined Benefit Plans – State Participating

The state of Minnesota currently contributes as an employer and/or non-employer contributing entity into five primary government administered multiple-employer cost sharing plans, one non-primary government administered multiple-employer cost sharing plan, and three primary government administered single-employer plans. During the fiscal year 2015 reporting period, the Minneapolis Employees Retirement Fund merged with the General Employees Retirement Fund and the Duluth Teachers' Retirement Fund merged with the Teachers Retirement Fund. See Note 8 – Pension and Investment Trust Funds for more information on each plan.

Most of the reporting data begins with fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions." This statement requires the presentation of supplementary information for each of the ten most recent years. However, until a full 10-year trend is available, the state will present information for the years which the information is available. Covered-Member Payroll is an estimate in the reporting year and is restated in the following year to reflect actual Covered-Member Payroll. Required supplementary information is provided for the following plans:

- State Employees Retirement Fund (SERF)
- Correctional Employees Retirement Fund (CERF)
- General Employees Retirement Fund (GERF)
- Police and Fire Fund (P&FF)
- Teachers Retirement Fund (TRF)
- Minneapolis Employees Retirement Fund (MERF)
- St. Paul Teachers' Retirement Fund (SPTRF)
- Duluth Teachers' Retirement Fund (DTRF)
- Judges Retirement Fund (JRF)
- Legislators Retirement Fund (LRF)
- State Patrol Retirement Fund (SPRF)

Required Supplementary Information Primary Government Administered Multiple-Employer Cost Sharing Plans Schedule of Contributions (In Thousands)

| State Employee Retirement fund | | | | | | | | |
|---|--------------|---------------------|--------------|--------------|--------------|---------------------|---------------------|--------------|
| Description | 2014 | 2015 ⁽²⁾ | 2016 | 2017 | 2018 | 2019 ⁽³⁾ | 2020 ⁽⁴⁾ | 2021 |
| Statutorily Required Contribution as an Employer ⁽¹⁾ | \$ 93,957 | \$ 107,313 | \$ 110,804 | \$ 116,552 | \$ 121,322 | \$ 136,157 | \$ 152,523 | \$ 156,738 |
| Covered-Member Payroll | \$ 1,923,040 | \$ 2,006,862 | \$ 2,066,651 | \$ 2,179,626 | \$ 2,256,825 | \$ 2,374,710 | \$ 2,480,800 | \$ 2,489,480 |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | 4.9% | 5.3% | 5.4% | 5.3% | 5.4% | 5.7% | 6.1% | 6.3% |

⁽¹⁾ Statutorily required contributions equal actual required contributions.

⁽²⁾ 2015: The required contribution rate for employers increased from 5.0 percent to 5.5 percent.

⁽³⁾ 2019: The required contribution rate for employers increased to 5.875 percent.

⁽⁴⁾ 2020: The required contribution rate for employers increased to 6.25 percent.

Required Supplementary Information Primary Government Administered Multiple-Employer Cost Sharing Plans Schedule of Contributions (Continued) (In Thousands)

| Correctional Employees Retirement Fund | | | | | | | | |
|---|------------|---------------------|------------|------------|------------|---------------------|---------------------|---------------------|
| Description | 2014 | 2015 ⁽²⁾ | 2016 | 2017 | 2018 | 2019 ⁽³⁾ | 2020 ⁽⁴⁾ | 2021 ⁽⁵⁾ |
| Statutorily Required Contribution as an Employer ⁽¹⁾ | \$ 26,421 | \$ 29,378 | \$ 30,624 | \$ 31,663 | \$ 32,840 | \$ 38,141 | \$ 43,594 | \$ 48,662 |
| Covered-Member Payroll | \$ 218,860 | \$ 231,126 | \$ 241,020 | \$ 248,653 | \$ 257,055 | \$ 267,212 | \$ 278,340 | \$ 280,159 |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | 12.1% | 12.7% | 12.7% | 12.7% | 12.8% | 14.3% | 15.7% | 17.4% |

⁽¹⁾ Statutorily required contributions equal actual required contributions.

⁽²⁾ 2015: The required contribution rate for employers increased from 12.1 percent to 12.9 percent.

⁽³⁾ 2019: The required contribution rate for employers increased to 14.4 percent.

⁽⁴⁾ 2020: The required contribution rate for employers increased to 15.85 percent.

⁽⁵⁾ 2021: The required contribution rate for employers increased to 17.35 percent.

| General Employees Retirement Fund | | | | | | | | |
|---|-----------|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Description | 2014 | 2015 ⁽²⁾ | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Statutorily Required Contribution as an: | | | | | | | | |
| Employer ⁽¹⁾ | \$ 2,782 | \$ 2,655 | \$ 2,540 | \$ 3,155 | \$ 2,283 | \$ 2,138 | \$ 1,949 | \$ 1,720 |
| Non-Employer Contributing Entity ⁽¹⁾ | — | — | 6,000 | 6,000 | 16,000 | 16,000 | 16,000 | 16,000 |
| Total Statutorily Required Contribution | \$ 2,782 | \$ 2,655 | \$ 8,540 | \$ 9,155 | \$ 18,283 | \$ 18,138 | \$ 17,949 | \$ 17,720 |
| Covered-Member Payroll | \$ 37,715 | \$ 34,289 | \$ 41,328 | \$ 31,105 | \$ 28,849 | \$ 26,936 | \$ 24,638 | \$ 23,020 |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | 7.4% | 7.7% | 6.1% | 10.1% | 7.9% | 7.9% | 7.9% | 7.5% |

⁽¹⁾ Statutorily required contributions equal actual required contributions.

⁽²⁾ 2015: The required contribution rates for employers increased from 7.3-11.8 percent to 7.5-11.8 percent on January 1, 2015.

| Police and Fire Fund ⁽²⁾ | | | |
|---|----------|---------------------|----------|
| Description | 2019 | 2020 ⁽³⁾ | 2021 |
| Statutorily Required Contribution as an: | | | |
| Employer ⁽¹⁾ | \$ — | \$ 543 | \$ 586 |
| Non-Employer Contributing Entity ⁽¹⁾ | 4,500 | 4,500 | 9,000 |
| Total Statutorily Required Contribution | \$ 4,500 | \$ 5,043 | \$ 9,586 |
| Covered-Member Payroll | N/A | \$ 2,949 | \$ 3,291 |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | N/A | 18.4% | 17.8% |

⁽¹⁾ Statutorily required contributions equal actual required contributions.

⁽²⁾ Reporting data for P&FF begins with fiscal year 2019, due to a change in the statutorily required contribution.

⁽³⁾ 2020: The required contribution rate for employers increased from 16.95 percent to 17.7 percent.

Required Supplementary Information
Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions (Continued)
(In Thousands)

| Teachers Retirement Fund | | | | | | | | |
|---|------------------|---------------------|------------------|------------------|------------------|---------------------|---------------------|---------------------|
| Description | 2014 | 2015 ⁽²⁾ | 2016 | 2017 | 2018 | 2019 ⁽³⁾ | 2020 ⁽⁴⁾ | 2021 ⁽⁵⁾ |
| Statutorily Required Contribution as an: | | | | | | | | |
| Employer ⁽¹⁾ | \$ 13,206 | \$ 14,542 | \$ 14,514 | \$ 14,885 | \$ 14,678 | \$ 15,447 | \$ 16,115 | \$ 16,609 |
| Non-Employer Contributing Entity ⁽¹⁾ | 16,501 | 29,831 | 31,088 | 31,087 | 30,886 | 31,087 | 31,087 | 31,087 |
| Total Statutorily Required Contribution | \$ 29,707 | \$ 44,373 | \$ 45,602 | \$ 45,972 | \$ 45,564 | \$ 46,534 | \$ 47,202 | \$ 47,696 |
| Covered-Member Payroll | \$ 167,667 | \$ 166,870 | \$ 168,264 | \$ 174,018 | \$ 170,196 | \$ 177,753 | \$ 179,645 | \$ 185,349 |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | 7.9% | 8.7% | 8.6% | 8.6% | 8.6% | 8.7% | 9.0% | 9.0% |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ 2015: The required contribution rate for employers increased from 7.0-11.0 percent to 7.5-11.5 percent.
⁽³⁾ 2019: The required contribution rate for employers increased to 7.71-11.71 percent.
⁽⁴⁾ 2020: The required contribution rate for employers increased to 7.92-11.92 percent.
⁽⁵⁾ 2021: The required contribution rate for employers increased to 8.13-12.13 percent.

| Minneapolis Employees Retirement Fund ⁽²⁾ | | |
|--|-----------|-----------|
| Description | 2014 | 2015 |
| Statutorily Required Contribution as a Non-Employer Contributing Entity ⁽¹⁾ | \$ 24,000 | \$ 24,000 |
| Covered-Member Payroll | N/A | N/A |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | N/A | N/A |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ MERF merged with GERF in reporting fiscal year 2015.

Required Supplementary Information
Non-Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

| St. Paul Teachers' Retirement Fund | | | | | | | | | |
|---|------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--|
| Description | 2014 | 2015 ⁽²⁾ | 2016 ⁽³⁾ | 2017 ⁽⁴⁾ | 2018 ⁽⁵⁾ | 2019 ⁽⁶⁾ | 2020 ⁽⁷⁾ | 2021 ⁽⁸⁾ | |
| Statutorily Required Contribution as an: | | | | | | | | | |
| Employer ⁽¹⁾ | \$ 109 | \$ 86 | \$ 64 | \$ 66 | \$ 41 | \$ 47 | \$ 38 | \$ 27 | |
| Non-Employer Contributing Entity ⁽¹⁾ | 10,665 | 9,827 | 10,665 | 10,665 | 10,665 | 15,666 | 15,663 | 15,664 | |
| Total Statutorily Required Contribution | \$ 10,774 | \$ 9,913 | \$ 10,729 | \$ 10,731 | \$ 10,706 | \$ 15,713 | \$ 15,701 | \$ 15,691 | |
| Covered-Member Payroll | \$ 1,749 | \$ 628 | \$ 443 | \$ 465 | \$ 274 | \$ 271 | \$ 211 | \$ 215 | |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | 6.2% | 13.7% | 14.4% | 14.2% | 15.0% | 17.3% | 18.0% | 12.6% | |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ 2015: The required contribution rate for employers increased from 5.25-8.75 percent to 5.50-9.00 percent.
⁽³⁾ 2016: The required contribution rate for employers increased to 6.00-9.50 percent.
⁽⁴⁾ 2017: The required contribution rate for employers increased to 6.25-9.75 percent.
⁽⁵⁾ 2018: The required contribution rate for employers increased to 6.50-10.00 percent.
⁽⁶⁾ 2019: The required contribution rate for employers increased to 7.335-10.835 percent.
⁽⁷⁾ 2020: The required contribution rate for employers increased to 8.17-11.67 percent.
⁽⁸⁾ 2021: The required contribution rate for employers increased to 8.38-11.88 percent.

| Duluth Teachers' Retirement Fund ⁽²⁾ | | |
|---|-----------------|-----------------|
| Description | 2014 | 2015 |
| Statutorily Required Contribution as an: | | |
| Employer ⁽¹⁾ | \$ 55 | \$ 56 |
| Non-Employer Contributing Entity ⁽¹⁾ | 6,555 | 6,346 |
| Total Statutorily Required Contribution | \$ 6,610 | \$ 6,402 |
| Covered-Member Payroll | \$ 729 | \$ 760 |
| Required Employer Contributions as a Percentage of Covered-Member Payroll | 7.5% | 7.4% |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ DTRF merged with TRF in reporting fiscal year 2015.

**Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability
(In Thousands)**

| Description | State Employees Retirement Fund | | | | | | |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|--------------|--------------|
| | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 | 2021 |
| Primary Government's Proportion of the Net Pension Liability as an Employer | 73.38 % | 73.93 % | 73.88 % | 74.15 % | 74.45 % | 74.94 % | 75.21 % |
| Primary Government's Proportionate Share of the Net Pension Liability as an Employer | \$ 1,189,902 | \$ 1,138,125 | \$ 9,160,172 | \$ 5,500,428 | \$ 1,031,909 | \$ 1,054,276 | \$ 998,968 |
| Primary Government's Covered-Member Payroll – Measurement Period | \$ 1,923,040 | \$ 2,006,862 | \$ 2,066,651 | \$ 2,179,626 | \$ 2,256,825 | \$ 2,374,710 | \$ 2,480,800 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | 61.9 % | 56.7 % | 443.2 % | 252.4 % | 45.7 % | 44.4 % | 40.3 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 87.6 % | 88.3 % | 47.5 % | 62.7 % | 90.6 % | 90.7 % | 91.3 % |

- ⁽¹⁾ 2016: Benefit increase of 2.5 percent was projected to start in 2044 instead of 2016.
⁽²⁾ 2017: Benefit increase was changed to 2.0 percent for all future years. The discount rate changed from 7.9 percent to 4.17 percent.
⁽³⁾ 2018: The discount rate changed to 5.42 percent.
⁽⁴⁾ 2019: Benefit increase was changed to 2.0 percent through December 31, 2018, 1.0 percent through December 31, 2023, and 1.5 percent thereafter. The discount rate changed to 7.5 percent.

| Description | Correctional Employees Retirement Fund | | | | | | |
|--|--|---------------------|---------------------|---------------------|---------------------|------------|------------|
| | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 | 2021 |
| Primary Government's Proportion of the Net Pension Liability as an Employer | 99.80 % | 99.86 % | 99.91 % | 99.91 % | 99.89 % | 99.87 % | 99.95 % |
| Primary Government's Proportionate Share of the Net Pension Liability as an Employer | \$ 475,387 | \$ 653,352 | \$ 1,331,563 | \$ 1,127,087 | \$ 375,232 | \$ 394,861 | \$ 447,093 |
| Primary Government's Covered-Member Payroll – Measurement Period | \$ 218,860 | \$ 231,126 | \$ 241,020 | \$ 248,653 | \$ 257,055 | \$ 267,212 | \$ 278,340 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | 217.2 % | 282.7 % | 552.5 % | 453.3 % | 146.0 % | 147.8 % | 160.6 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 64.8 % | 58.1 % | 40.3 % | 47.6 % | 74.8 % | 75.0 % | 73.2 % |

- ⁽¹⁾ 2016: Benefit increase was projected to remain at 2.0 percent instead of increasing to 2.5 percent in 2016.
⁽²⁾ 2017: The discount rate changed from 6.25 percent to 4.24 percent.
⁽³⁾ 2018: The discount rate changed to 5.02 percent.
⁽⁴⁾ 2019: Benefit increase was changed to 2.0 percent through December 31, 2018, and 1.5 percent thereafter. The discount rate changed to 7.5 percent.

**Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability (Continued)
(In Thousands)**

| Description | General Employees Retirement Fund | | | | | | |
|--|-----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 | 2021 |
| Primary Government's Proportion of the Net Pension Liability as an: | | | | | | | |
| Employer | 0.70 % | 0.62 % | 0.72 % | 0.51 % | 0.46 % | 0.41 % | 0.37 % |
| Non-Employer Contributing Entity | — % | 3.56 % | 1.29 % | 1.24 % | 3.18 % | 3.02 % | 2.99 % |
| Total Primary Government's Proportion of the Net Pension Liability | 0.70 % | 4.18 % | 2.01 % | 1.75 % | 3.64 % | 3.43 % | 3.36 % |
| Primary Government's Proportionate Share of the Net Pension Liability as an: | | | | | | | |
| Employer | \$ 33,103 | \$ 32,022 | \$ 58,119 | \$ 32,252 | \$ 25,408 | \$ 22,829 | \$ 22,051 |
| Non-Employer Contributing Entity | — | 184,478 | 104,677 | 79,275 | 176,191 | 166,659 | 179,348 |
| Total Primary Government's Proportionate Share of the Net Pension Liability | \$ 33,103 | \$ 216,500 | \$ 162,796 | \$ 111,527 | \$ 201,599 | \$ 189,488 | \$ 201,399 |
| Primary Government's Covered-Member Payroll – Measurement Period | \$ 37,715 | \$ 34,289 | \$ 41,328 | \$ 31,105 | \$ 28,849 | \$ 26,936 | \$ 24,638 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | 87.8 % | 93.4 % | 140.6 % | 103.7 % | 88.1 % | 84.8 % | 89.5 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 78.7 % | 78.2 % | 68.9 % | 75.9 % | 79.5 % | 80.2 % | 79.1 % |

- ⁽¹⁾ 2016: Benefit increase of 2.5 percent was projected to start in 2036 instead of 2031.
⁽²⁾ 2017: Benefit increase changed to 1.0 percent for all future years. The discount rate changed from 7.9 percent to 7.5 percent.
⁽³⁾ 2018: Benefit increase changed to 1.0 percent through 2044 and 2.5 percent thereafter.
⁽⁴⁾ 2019: Benefit increase changed to 1.25 percent for all future years.

| Description | Police and Fire Fund ⁽¹⁾ | | |
|--|-------------------------------------|------------------|------------------|
| | 2019 | 2020 | 2021 |
| Primary Government's Proportion of the Net Pension Liability as an: | | | |
| Employer | — % | 0.25 % | 0.28 % |
| Non-Employer Contributing Entity | 5.27 % | 5.15 % | 4.60 % |
| Total Primary Government's Proportion of the Net Pension Liability | 5.27 % | 5.40 % | 4.88 % |
| Primary Government's Proportionate Share of the Net Pension Liability as an: | | | |
| Employer | \$ — | \$ 2,687 | \$ 3,635 |
| Non-Employer Contributing Entity | 56,187 | 54,801 | 60,676 |
| Total Primary Government's Proportionate Share of the Net Pension Liability | \$ 56,187 | \$ 57,488 | \$ 64,311 |
| Primary Government's Covered-Member Payroll – Measurement Period | N/A | \$ 2,553 | \$ 2,949 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | N/A | 105.2 % | 123.3 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 88.8 % | 89.3 % | 87.2 % |

- ⁽¹⁾ Reporting data for P&FF begins with fiscal year 2019, due to a change in the statutorily required contribution.

Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability (Continued)
(In Thousands)

| Description | Teachers Retirement Fund | | | | | | |
|--|--------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 | 2021 |
| Primary Government's Proportion of the Net Pension Liability as an: | | | | | | | |
| Employer | 4.13 % | 3.88 % | 3.72 % | 3.71 % | 3.52 % | 3.55 % | 3.48 % |
| Non-Employer Contributing Entity | 5.17 % | 9.74 % | 7.97 % | 7.70 % | 7.50 % | 7.10 % | 6.75 % |
| Total Primary Government's Proportion of the Net Pension Liability | 9.30 % | 13.62 % | 11.69 % | 11.41 % | 11.02 % | 10.65 % | 10.23 % |
| Primary Government's Proportionate Share of the Net Pension Liability as an: | | | | | | | |
| Employer | \$ 190,460 | \$ 239,701 | \$ 888,788 | \$ 740,843 | \$ 221,190 | \$ 226,558 | \$ 256,907 |
| Non-Employer Contributing Entity | 237,958 | 602,738 | 1,900,653 | 1,537,059 | 471,220 | 452,696 | 499,032 |
| Total Primary Government's Proportionate Share of the Net Pension Liability | \$ 428,418 | \$ 842,439 | \$2,789,441 | \$2,277,902 | \$ 692,410 | \$ 679,254 | \$ 755,939 |
| Primary Government's Covered-Member Payroll – Measurement Period | \$ 167,667 | \$ 166,870 | \$ 168,264 | \$ 174,018 | \$ 170,196 | \$ 177,753 | \$ 179,645 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | 113.6 % | 143.6 % | 528.2 % | 425.7 % | 130.0 % | 127.5 % | 143.0 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 81.5 % | 76.8 % | 44.9 % | 51.6 % | 78.1 % | 78.2 % | 75.5 % |

- ⁽¹⁾ 2016: The discount rate changed from 8.25 percent to 8.00 percent.
⁽²⁾ 2017: A benefit increase was not projected to be attained instead of 2.5 percent in 2037. The discount rate changed to 4.66 percent.
⁽³⁾ 2018: Benefit increase of 2.5 percent was projected to start in 2045. The discount rate changed to 5.12 percent.
⁽⁴⁾ 2019: Benefit increase changed to 2.0 percent through December 31, 2018, 1.0 percent through December 31, 2023, then increase by 0.1 percent each year over five years, and 1.5 percent thereafter. The discount rate changed to 7.5 percent.

Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability (Continued)
(In Thousands)

| Description | St. Paul Teachers' Retirement Fund | | | | | | |
|--|------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 | 2021 |
| Primary Government's Proportion of the Net Pension Liability as an: | | | | | | | |
| Employer | 0.31 % | 0.24 % | 0.17 % | 0.18 % | 0.10 % | 0.10 % | 0.08 % |
| Non-Employer Contributing Entity | 30.34 % | 29.52 % | 28.79 % | 27.97 % | 27.48 % | 33.67 % | 31.67 % |
| Total Primary Government's Proportion of the Net Pension Liability | 30.65 % | 29.76 % | 28.96 % | 28.15 % | 27.58 % | 33.77 % | 31.75 % |
| Primary Government's Proportionate Share of the Net Pension Liability as an: | | | | | | | |
| Employer | \$ 1,666 | \$ 1,385 | \$ 1,082 | \$ 1,019 | \$ 630 | \$ 617 | \$ 503 |
| Non-Employer Contributing Entity | 162,576 | 171,776 | 182,226 | 161,970 | 166,431 | 205,790 | 207,016 |
| Total Primary Government's Proportionate Share of the Net Pension Liability | \$ 164,242 | \$ 173,161 | \$ 183,308 | \$ 162,989 | \$ 167,061 | \$ 206,407 | \$ 207,519 |
| Primary Government's Covered-Member Payroll – Measurement Period | \$ 1,749 | \$ 628 | \$ 443 | \$ 465 | \$ 274 | \$ 271 | \$ 211 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | 95.3 % | 220.5 % | 244.2 % | 219.1 % | 229.9 % | 227.7 % | 238.4 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.1 % | 63.6 % | 60.3 % | 64.1 % | 63.9 % | 63.9 % | 61.4 % |

- ⁽¹⁾ 2016: Benefit increase if the plan is at least 90 percent funded was up to 2.5 percent instead of up to 5.0 percent.
⁽²⁾ 2017: Benefit increase of 2.0 percent was projected to start in 2055 and 2.5 percent in 2066 instead of 2041 and 2051, respectively.
⁽³⁾ 2018: Benefit increase of 2.0 percent was projected to start in 2042 and 2.5 percent in 2052.
⁽⁴⁾ 2019: Benefit increase changed to 1.0 percent through December 31, 2018, no benefit increases through December 31, 2020, and 1.0 percent thereafter. The discount rate changed from 8.0 percent to 7.5 percent.

| Description | Minneapolis Employee Retirement Fund ⁽¹⁾ | Duluth Teachers Retirement Fund ⁽²⁾ |
|--|---|--|
| | 2015 | 2015 |
| Primary Government's Proportion of the Net Pension Liability as an: | | |
| Employer | —% | 0.55% |
| Non-Employer Contributing Entity | 43.35% | 64.98% |
| Total Primary Government's Proportion of the Net Pension Liability | 43.35% | 65.53% |
| Primary Government's Proportionate Share of the Net Pension Liability as an: | | |
| Employer | \$ — | \$ 1,401 |
| Non-Employer Contributing Entity | 95,900 | 166,948 |
| Total Primary Government's Proportionate Share of the Net Pension Liability | \$ 95,900 | \$ 168,349 |
| Primary Government's Covered-Member Payroll – Measurement Period | N/A | \$ 729 |
| Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll | N/A | 192.2% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 80.9% | 46.8% |

- ⁽¹⁾ MERF merged with GERF in reporting fiscal year 2015.
⁽²⁾ DTRF merged with TRF in reporting fiscal year 2015.

Required Supplementary Information
Primary Government Administered Single-Employer Plans
Schedule of Contributions
(In Thousands)

| Judges Retirement Fund | | | | | | | | | | |
|---|-----------|-----------|---------------------|-----------|-----------|---------------------|---------------------|-----------|-----------|-----------|
| Description | 2012 | 2013 | 2014 ⁽²⁾ | 2015 | 2016 | 2017 ⁽³⁾ | 2018 ⁽⁴⁾ | 2019 | 2020 | 2021 |
| Statutorily Required Contribution ⁽¹⁾ | \$ 7,922 | \$ 8,177 | \$ 9,426 | \$ 9,776 | \$ 10,219 | \$ 13,758 | \$ 17,027 | \$ 17,287 | \$ 17,766 | \$ 17,915 |
| Covered-Member Payroll | \$ 38,644 | \$ 39,888 | \$ 41,893 | \$ 43,449 | \$ 45,418 | \$ 47,813 | \$ 49,009 | \$ 50,164 | \$ 52,298 | \$ 52,130 |
| Contributions as a Percentage of Covered-Member Payroll | 20.5% | 20.5% | 22.5% | 22.5% | 22.5% | 28.8% | 34.7% | 34.5% | 34.0% | 34.4% |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ 2014: The required employer contribution rate changed from 20.5 percent to 22.5 percent.
⁽³⁾ 2017: The required employer contribution rate included an additional \$3 million over the percentage of covered payroll.
⁽⁴⁾ 2018: The required employer contribution rate included an additional \$3 million for a total of \$6 million over the percentage of covered payroll.

| Legislators Retirement Fund ⁽²⁾ | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Description | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Statutorily Required Contribution ⁽¹⁾ | \$ 3,935 | \$ 3,399 | \$ 3,436 | \$ 3,216 | \$ 5,087 | \$ 8,716 | \$ 8,856 | \$ 8,798 | \$ 8,764 | \$ 8,639 |
| Covered-Member Payroll | \$ 1,378 | \$ 1,233 | \$ 1,122 | \$ 1,700 | \$ 989 | \$ 889 | \$ 1,033 | \$ 1,011 | \$ 967 | \$ 848 |
| Contributions as a Percentage of Covered-Member Payroll | 285.6% | 275.7% | 306.2% | 189.2% | 514.4% | 980.4% | 857.3% | 870.2% | 906.3% | 1,018.8% |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ LRF employer contributions are on a pay-as-you-go basis.

| State Patrol Retirement Fund | | | | | | | | | | |
|---|-----------|-----------|-----------|---------------------|-----------|---------------------|-----------|---------------------|---------------------|---------------------|
| Description | 2012 | 2013 | 2014 | 2015 ⁽²⁾ | 2016 | 2017 ⁽³⁾ | 2018 | 2019 ⁽⁴⁾ | 2020 ⁽⁵⁾ | 2021 ⁽⁶⁾ |
| Statutorily Required Contribution ⁽¹⁾ | \$ 11,620 | \$ 11,482 | \$ 12,894 | \$ 13,763 | \$ 13,938 | \$ 15,783 | \$ 15,952 | \$ 19,479 | \$ 21,975 | \$ 24,809 |
| Covered-Member Payroll | \$ 62,524 | \$ 62,121 | \$ 63,952 | \$ 68,463 | \$ 69,343 | \$ 73,056 | \$ 74,007 | \$ 80,792 | \$ 84,530 | \$ 87,630 |
| Contributions as a Percentage of Covered-Member Payroll | 18.6% | 18.5% | 20.2% | 20.1% | 20.1% | 21.6% | 21.6% | 24.1% | 26.0% | 28.3% |

- ⁽¹⁾ Statutorily required contributions equal actual required contributions.
⁽²⁾ 2015: The required employer contribution rate changed from 18.6 percent to 20.1 percent.
⁽³⁾ 2017: The required employer contribution rate changed to 21.6 percent.
⁽⁴⁾ 2019: The required employer contribution rate changed to 22.35 percent, plus an additional supplemental employer contribution of 1.75 percent.
⁽⁵⁾ 2020: The required employer contribution rate changed to 23.1 percent, plus an additional supplemental employer contribution of 3.0 percent.
⁽⁶⁾ 2021: The additional supplemental employer contribution rate changed to 5.0 percent.

Required Supplementary Information
Primary Government Administered Single-Employer Plans
Schedule of Changes in the Net Pension Liability
and Related Ratios
(In Thousands)

| Judges Retirement Fund | | | | | | | |
|--|------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Description | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 ⁽⁵⁾ | 2021 ⁽⁶⁾ |
| Total Pension Liability | | | | | | | |
| Service Cost | \$ 12,075 | \$ 12,251 | \$ 13,711 | \$ 9,483 | \$ 9,857 | \$ 9,881 | \$ 9,897 |
| Interest on the Total Pension Liability | 20,535 | 21,773 | 21,349 | 25,366 | 26,747 | 27,769 | 28,721 |
| Difference Between Expected and Actual Experience of the Total Pension Liability | 5,080 | (4,366) | 7,135 | (4,958) | 1,424 | 804 | (802) |
| Changes in Assumptions | (8,416) | 21,696 | (85,756) | 11,652 | — | — | — |
| Benefit Payments, Including Refunds of Member Contributions | (20,802) | (21,893) | (22,378) | (23,094) | (23,585) | (25,233) | (26,302) |
| Net Change in Total Pension Liability | \$ 8,472 | \$ 29,461 | \$ (65,939) | \$ 18,449 | \$ 14,443 | \$ 13,221 | \$ 11,514 |
| Total Pension Liability, Beginning | \$ 373,039 | \$ 381,511 | \$ 410,972 | \$ 345,033 | \$ 363,482 | \$ 377,925 | \$ 391,146 |
| Total Pension Liability, Ending | \$ 381,511 | \$ 410,972 | \$ 345,033 | \$ 363,482 | \$ 377,925 | \$ 391,146 | \$ 402,660 |
| Fiduciary Net Position | | | | | | | |
| Contributions – Employer | \$ 9,426 | \$ 9,776 | \$ 10,219 | \$ 13,758 | \$ 17,027 | \$ 17,287 | \$ 17,766 |
| Contributions – Member | 3,578 | 3,629 | 3,763 | 3,932 | 3,973 | 4,049 | 4,168 |
| Net Investment Income | 28,011 | 7,572 | (186) | 24,729 | 19,265 | 14,491 | 8,955 |
| Benefit Payments, Including Refunds of Member Contributions | (20,802) | (21,893) | (22,378) | (23,094) | (23,585) | (25,233) | (26,302) |
| Pension Plan Administrative Expenses | (55) | (60) | (94) | (89) | (65) | (87) | (112) |
| Net Change in Plan Fiduciary Net Position | \$ 20,158 | \$ (976) | \$ (8,676) | \$ 19,236 | \$ 16,615 | \$ 10,507 | \$ 4,475 |
| Plan Fiduciary Net Position, Beginning | \$ 155,398 | \$ 175,556 | \$ 174,580 | \$ 165,904 | \$ 185,140 | \$ 201,755 | \$ 212,262 |
| Plan Fiduciary Net Position, Ending | \$ 175,556 | \$ 174,580 | \$ 165,904 | \$ 185,140 | \$ 201,755 | \$ 212,262 | \$ 216,737 |
| Net Pension Liability | \$ 205,955 | \$ 236,392 | \$ 179,129 | \$ 178,342 | \$ 176,170 | \$ 178,884 | \$ 185,923 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 46.0 % | 42.5 % | 48.1 % | 50.9 % | 53.4 % | 54.3 % | 53.8 % |
| Covered-Member Payroll – Measurement Period | \$ 41,893 | \$ 43,449 | \$ 45,418 | \$ 47,813 | \$ 49,009 | \$ 50,164 | \$ 52,298 |
| Net Pension Liability as a Percentage of Covered-Member Payroll | 491.6 % | 544.1 % | 394.4 % | 373.0 % | 359.5 % | 356.6 % | 355.5 % |

- ⁽¹⁾ 2016: The discount rate changed from 5.78 percent to 5.25 percent.
⁽²⁾ 2017: Benefit increase of 1.75 percent was projected for all future years changed to 1.75 percent through 2041, 2.0 percent for 2042-2054, and 2.5 percent thereafter. The discount rate changed to 7.50 percent.
⁽³⁾ 2018: Benefit increase rate changed to 1.75 percent through 2038, 2.0 percent for 2039-2053, and 2.5 percent thereafter.
⁽⁴⁾ 2019: Benefit increase rate changed to 1.75 percent through 2037, 2.0 percent for 2038-2051, and 2.5 percent thereafter.
⁽⁵⁾ 2020: Benefit increase rate changed to 1.75 percent through 2039, 2.0 percent for 2040-2056, and 2.5 percent thereafter.
⁽⁶⁾ 2021: Benefit increase rate changed to 1.75 percent through 2041, 2.0 percent for 2042-2058, and 2.5 percent thereafter.

Required Supplementary Information
Primary Government Administered Single-Employer Plans
Schedule of Changes in the Net Pension Liability
and Related Ratios (Continued)
(In Thousands)

| Legislators Retirement Fund | | | | | | | |
|--|------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Description | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 ⁽⁵⁾ | 2021 ⁽⁶⁾ |
| Total Pension Liability | | | | | | | |
| Service Cost | \$ 398 | \$ 428 | \$ 495 | \$ 546 | \$ 437 | \$ 496 | \$ 527 |
| Interest on the Total Pension Liability | 6,177 | 6,113 | 5,332 | 4,293 | 5,094 | 4,894 | 4,258 |
| Benefit Changes | — | — | — | — | (9,839) | — | — |
| Difference Between Expected and Actual Experience of the Total Pension Liability | (237) | (7,303) | (1,597) | 1,518 | 6,119 | (2,441) | 645 |
| Changes in Assumptions | 11,201 | 7,057 | 14,653 | (5,017) | (856) | 6,722 | 9,986 |
| Benefit Payments, Including Refunds of Member Contributions | (8,486) | (8,441) | (8,536) | (8,716) | (8,912) | (8,853) | (8,812) |
| Net Change in Total Pension Liability | \$ 9,053 | \$ (2,146) | \$ 10,347 | \$ (7,376) | \$ (7,957) | \$ 818 | \$ 6,604 |
| Total Pension Liability, Beginning | \$ 137,446 | \$ 146,499 | \$ 144,353 | \$ 154,700 | \$ 147,324 | \$ 139,367 | \$ 140,185 |
| Total Pension Liability, Ending | \$ 146,499 | \$ 144,353 | \$ 154,700 | \$ 147,324 | \$ 139,367 | \$ 140,185 | \$ 146,789 |
| Fiduciary Net Position | | | | | | | |
| Contributions – Employer | \$ 3,436 | \$ 3,216 | \$ 5,087 | \$ 8,716 | \$ 8,856 | \$ 8,798 | \$ 8,764 |
| Contributions – Member | 101 | 153 | 89 | 80 | 93 | 91 | 87 |
| Net Investment Income | 1,750 | 281 | (69) | — | — | — | — |
| Benefit Payments, Including Refunds of Member Contributions | (8,486) | (8,441) | (8,536) | (8,716) | (8,912) | (8,853) | (8,812) |
| Pension Plan Administrative Expenses | (36) | (37) | (42) | (39) | (37) | (36) | (39) |
| Other Changes | — | — | 41 | (41) | — | — | — |
| Net Change in Plan Fiduciary Net Position | \$ (3,235) | \$ (4,828) | \$ (3,430) | \$ — | \$ — | \$ — | \$ — |
| Plan Fiduciary Net Position, Beginning | \$ 11,493 | \$ 8,258 | \$ 3,430 | \$ — | \$ — | \$ — | \$ — |
| Plan Fiduciary Net Position, Ending | \$ 8,258 | \$ 3,430 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Net Pension Liability | \$ 138,241 | \$ 140,923 | \$ 154,700 | \$ 147,324 | \$ 139,367 | \$ 140,185 | \$ 146,789 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 5.6 % | 2.4 % | — % | — % | — % | — % | — % |
| Covered-Member Payroll – Measurement Period | \$ 1,122 | \$ 1,700 | \$ 989 | \$ 889 | \$ 1,033 | \$ 1,011 | \$ 967 |
| Net Pension Liability as a Percentage of Covered-Member Payroll | 12,320.9 % | 8,289.6 % | 15,642.1 % | 16,571.9 % | 13,491.5 % | 13,866.0 % | 15,179.8 % |

- ⁽¹⁾ 2016: Benefit increase of 2.5 percent was projected to start in 2044 instead of 2015. The discount rate changed from 4.29 percent to 3.80 percent.
- ⁽²⁾ 2017: Benefit increase changed to 2.0 percent for all future years. The discount rate changed to 2.85 percent.
- ⁽³⁾ 2018: The discount rate changed to 3.56 percent.
- ⁽⁴⁾ 2019: Benefit increase rate changed to 2.0 percent through December 31, 2018, 1.0 percent through December 31, 2023, and 1.5 percent thereafter. The discount rate changed to 3.62 percent.
- ⁽⁵⁾ 2020: The discount rate changed to 3.13 percent.
- ⁽⁶⁾ 2021: The discount rate changed to 2.45 percent.

Required Supplementary Information
Primary Government Administered Single-Employer Plans
Schedule of Changes in the Net Pension Liability
and Related Ratios (Continued)
(In Thousands)

| State Patrol Retirement Fund | | | | | | | |
|--|------------|---------------------|---------------------|---------------------|---------------------|------------|------------|
| Description | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 ⁽³⁾ | 2019 ⁽⁴⁾ | 2020 | 2021 |
| Total Pension Liability | | | | | | | |
| Service Cost | \$ 14,514 | \$ 16,144 | \$ 16,555 | \$ 29,758 | \$ 24,935 | \$ 19,375 | \$ 21,122 |
| Interest on the Total Pension Liability | 60,183 | 63,753 | 64,592 | 58,865 | 65,110 | 68,227 | 70,465 |
| Benefit Changes | — | — | — | — | (2,604) | — | — |
| Difference Between Expected and Actual Experience of the Total Pension Liability | (5,771) | (12,855) | (22,222) | (2,418) | (8,369) | 2,757 | (535) |
| Changes in Assumptions | 30,058 | — | 283,584 | (112,694) | (126,888) | — | — |
| Benefit Payments, Including Refunds of Member Contributions | (53,722) | (55,480) | (57,774) | (58,565) | (59,692) | (60,803) | (61,971) |
| Net Change in Total Pension Liability | \$ 45,262 | \$ 11,562 | \$ 284,735 | \$ (85,054) | \$ (107,508) | \$ 29,556 | \$ 29,081 |
| Total Pension Liability, Beginning | \$ 781,411 | \$ 826,673 | \$ 838,235 | \$ 1,122,970 | \$ 1,037,916 | \$ 930,408 | \$ 959,964 |
| Total Pension Liability, Ending | \$ 826,673 | \$ 838,235 | \$ 1,122,970 | \$ 1,037,916 | \$ 930,408 | \$ 959,964 | \$ 989,045 |
| Fiduciary Net Position | | | | | | | |
| Contributions – Employer | \$ 12,894 | \$ 14,763 | \$ 14,938 | \$ 16,783 | \$ 16,952 | \$ 20,479 | \$ 22,975 |
| Contributions – Member | 7,930 | 9,174 | 9,292 | 10,520 | 10,657 | 12,038 | 12,595 |
| Net Investment Income | 107,187 | 28,903 | (774) | 93,077 | 70,474 | 51,823 | 31,073 |
| Benefit Payments, Including Refunds of Member Contributions | (53,722) | (55,480) | (57,774) | (58,565) | (59,692) | (60,803) | (61,971) |
| Pension Plan Administrative Expenses | (150) | (170) | (220) | (208) | (184) | (191) | (224) |
| Other Changes | — | — | — | — | (7) | (1) | (2) |
| Net Change in Plan Fiduciary Net Position | \$ 74,139 | \$ (2,810) | \$ (34,538) | \$ 61,607 | \$ 38,200 | \$ 23,345 | \$ 4,446 |
| Plan Fiduciary Net Position, Beginning | \$ 593,201 | \$ 667,340 | \$ 664,530 | \$ 629,992 | \$ 691,599 | \$ 729,799 | \$ 753,144 |
| Plan Fiduciary Net Position, Ending | \$ 667,340 | \$ 664,530 | \$ 629,992 | \$ 691,599 | \$ 729,799 | \$ 753,144 | \$ 757,590 |
| Net Pension Liability | \$ 159,333 | \$ 173,705 | \$ 492,978 | \$ 346,317 | \$ 200,609 | \$ 206,820 | \$ 231,455 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 80.7 % | 79.3 % | 56.1 % | 66.6 % | 78.4 % | 78.5 % | 76.6 % |
| Covered-Member Payroll – Measurement Period | \$ 63,952 | \$ 68,463 | \$ 69,343 | \$ 73,056 | \$ 74,007 | \$ 80,792 | \$ 84,530 |
| Net Pension Liability as a Percentage of Covered-Member Payroll | 249.1 % | 253.7 % | 710.9 % | 474.0 % | 271.1 % | 256.0 % | 273.8 % |

- ⁽¹⁾ 2016: Benefit increase of 1.0 percent was projected to start in 2031 instead of 2018, 1.5 percent through 2052 instead of 2045 and 2.5 percent thereafter.
- ⁽²⁾ 2017: Benefit increase changed to 1.0 percent for all future years. The discount rate changed from 7.9 percent to 5.31 percent.
- ⁽³⁾ 2018: Benefit increase changed to 1.0 percent through 2064, and 1.5 percent thereafter. The discount rate changed to 6.38 percent.
- ⁽⁴⁾ 2019: Benefit increase changed to 1.0 percent for all future years. The discount rate changed to 7.5 percent.

Defined Benefit Other Postemployment Benefits

The state of Minnesota offers other postemployment benefits (OPEB) to state employees and their dependents through a single-employer defined benefit health care plan. The state does not fund this plan and operates on a pay-as-you-go basis. The state implemented GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" in fiscal year 2018, which is the first year the data is available. This statement requires the presentation of supplementary information for each of the ten most recent years. However, until a full 10-year trend is available, the state will present information for the years which the information is available.

Required Supplementary Information
Single Employer Defined Benefit OPEB Plan
Schedule of Changes in Total OPEB Liability
(In Thousands)

| Description | 2018 | 2019 ⁽²⁾ | 2020 ⁽³⁾ | 2021 ⁽⁴⁾ |
|--|-------------------|---------------------|---------------------|---------------------|
| Total OPEB Liability ⁽¹⁾ : | | | | |
| Service Cost | \$ 51,415 | \$ 48,056 | \$ 47,473 | \$ 46,502 |
| Interest | 18,612 | 23,378 | 24,963 | 23,128 |
| Differences Between Expected and Actual Experience | — | (42,541) | (16,846) | (76,320) |
| Changes in Assumptions or Other Inputs | (32,277) | (596) | (2,444) | 101,123 |
| Benefit Payments | (32,627) | (36,358) | (35,030) | (37,754) |
| Net Changes in Total OPEB Liability | \$ 5,123 | \$ (8,061) | \$ 18,116 | \$ 56,679 |
| Total OPEB Liability, Beginning | 617,856 | 622,979 | 614,918 | 633,034 |
| Total OPEB Liability, Ending | <u>\$ 622,979</u> | <u>\$ 614,918</u> | <u>\$ 633,034</u> | <u>\$ 689,713</u> |
| Covered-Employee Payroll | \$ 3,545,697 | \$ 3,603,462 | \$ 3,664,566 | \$ 3,814,738 |
| Total OPEB Liability as a Percentage of Covered-Employee Payroll | 17.6 % | 17.1 % | 17.3 % | 18.1 % |

⁽¹⁾ Amounts represent the total of the primary government's proportionate share and its discretely presented component unit's proportionate share.

⁽²⁾ 2019: The discount rate changed from 3.58 percent to 3.87 percent.

⁽³⁾ 2020: The discount rate changed to 3.50 percent.

⁽⁴⁾ 2021: The discount rate changed to 2.21 percent.

APPENDIX G

CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE UNDERTAKING

The Commissioner's Order authorizing the issuance of the Bonds will contain provisions enabling participating underwriters in the primary offering of the Bonds to comply with the requirements of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15C2-12, paragraph (b)(5), in substantially the following form:

3.01 **Official Statement.** The Official Statement dated _____, 2022, relating to the Bonds (the "Official Statement"), is a final official statement within the meaning of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, as in effect and interpreted from time to time ("Rule 15c2-12"). The respective purchasers of the Bonds designated in Section 4 hereof (collectively, the "Initial Purchasers") are authorized and directed to distribute the Official Statement to all persons to whom the Bonds of a series are reoffered.

3.02 **Continuing Disclosure.**

(a) **General Undertaking.** On behalf of the State, the Commissioner covenants and agrees with the Registered Owners (as hereinafter defined) from time to time of the Bonds to comply with Rule 15c2-12, paragraph (b)(5); and, for this purpose, to provide to the Municipal Securities Rulemaking Board ("MSRB"), annual financial information of the type included in the Official Statement and notice of the occurrence of certain specified events which materially affect the terms, payment, security, rating or tax status of the Bonds, as set forth in this Section. The State is the only "obligated person" in respect of the Bonds within the meaning of Rule 15c2-12. As used in this Section 3.02, "Registered Owner" means, in respect of a Bond of a series, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, "Beneficial Owner" means, in respect of a Bond of a series, any person or entity which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or is treated as the owner of the Bond for federal income tax purposes.

(b) **Information To Be Disclosed.** The Commissioner will provide, in the manner set forth in paragraph (c) hereof, either directly or indirectly through an agent designated by the Commissioner, the following information (the "Disclosure Information") at the following times:

(i) On or before December 31 of each year, commencing in 2022 (each a "Reporting Date"):

(A) The Annual Comprehensive Financial Report of the State for the fiscal year ending on the previous June 30, prepared by the State's Department of Management and Budget in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law; provided, however, that if audited financial statements are not available by such date, the financial statements to be delivered shall be unaudited, but the State undertakes and agrees to provide, within 10 days after the receipt thereof by the State, the audited general purpose financial statements of the State and the related audit report described above; and

(B) To the extent not included in the financial statements referred to in clause (A) hereof, the information for such fiscal year of the type contained in the Official Statement, which information may be unaudited.

Any or all of the information may be incorporated by reference from other documents, including official statements, which have been filed with the Securities and Exchange Commission (the "SEC") or have been made available to the public on the MSRB's Electronic Municipal Market Access ("EMMA") facility for municipal securities disclosure. The Commissioner shall clearly identify in the information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the State have materially changed or been discontinued, such Disclosure Information need no longer be provided if the State includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other State operations in respect of which data is not included in the Disclosure Information and the State determines that certain specified data regarding such replacement operations would be “Material” (as defined in subparagraph (ii) of this paragraph (b)), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or this Section 3.02 is amended as permitted by this subparagraph (i) or paragraph (d), then the State shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(ii) In a timely manner, not in excess of 10 business days after the occurrence of an event, notice of the occurrence of any of the following events:

- (A) Principal and interest payment delinquencies;
- (B) Non-payment related defaults, if material;
- (C) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (D) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (E) Substitution of credit or liquidity providers, or their failure to perform;
- (F) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (G) Modifications to rights of security holders, if material;
- (H) Bond calls, if material, and tender offers;
- (I) Defeasances;
- (J) Release, substitution or sale of property securing repayment of the securities, if material;
- (K) Rating changes;
- (L) Bankruptcy, insolvency, receivership or similar event of the State;
- (M) The consummation of a merger, consolidation or acquisition involving the State or the sale of all or substantially all of the assets of the State or other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (N) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.
- (O) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and

(P) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

With respect to (O) and (P) above, Rule 15c2-12 defines “financial obligation” as a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledge as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of (i) or (ii). However, “financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

As used herein, an event is “material” if it would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of the occurrence of the event.

(iii) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the State to provide the information required under subparagraph (i) of this paragraph (b) at the time specified thereunder;

(B) the amendment or supplementing of this Section 3.02 pursuant to paragraph (d), together with a copy of such amendment or supplement and any explanation provided by the State under subparagraph (ii) of paragraph (d);

(C) the termination of the obligations of the State under this Section 3.02 pursuant to paragraph (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the information required under subparagraph (i) of this paragraph (b) are prepared; and

(E) any change in the fiscal year of the State.

(c) Manner of Disclosure.

(i) The Commissioner agrees to make available to the MSRB, in an electronic format as prescribed by the MSRB from time to time, the information described in paragraph (b).

(ii) The Commissioner further agrees to make available by electronic transmission, overnight delivery, mail or other means, as appropriate, the information described in paragraph (b) to any rating agency then maintaining a rating of the Bonds and, at the expense of any Registered Owner, to any Registered Owner who requests in writing such information at the time of transmission under subparagraph (i) of this paragraph (c), or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(iii) All documents provided to the MSRB pursuant to this paragraph (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(iv) The State shall determine in the manner it deems appropriate whether there has occurred a change in the MSRB’s email address or filing procedures and requirement under the MSRB’s EMMA facility each time the State is required to file information with the MSRB.

(d) Term; Amendments; Interpretation.

(i) The covenants of the State in this Section 3.02 shall remain in effect with respect to a series of Bonds so long as any Bonds of such series are outstanding. Notwithstanding the preceding sentence, however, the obligations of the State under this Section 3.02 shall terminate and be without further effect as of any date on which the State delivers to the Registrar an opinion of bond counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the State to comply with the requirements of this Section 3.02 will not cause participating underwriters in the primary

offering of the Bonds to be in violation of the Rule 15c2-12 or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(ii) This Section 3.02 (and the form and requirements of the Disclosure Information) may be amended or supplemented by the State from time to time, without notice to (except as provided in subparagraph (ii) of paragraph (c)) or the consent of the Registered Owners of any Bonds, by an order of the Commissioner accompanied by an opinion of bond counsel, who may rely on certificates of the State and others and the opinion may be subject to customary qualifications, to the effect that: (A) such amendment or supplement (1) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the type of operations conducted by the State, or (2) is required by, or better complies with, the provisions of paragraph (b)(5) of Rule 15c2-12; (B) this Section 3.02 as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of Rule 15c2-12 at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (A)(1) and assuming that Rule 15c2-12 as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (C) such amendment or supplement does not materially impair the interests of the Registered Owners under Rule 15c2-12.

(iii) If the Disclosure Information is so amended, the Commissioner agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(iv) This Section 3.02 is entered into to comply with the continuing disclosure provisions of Rule 15c2-12 and should be construed so as to satisfy the requirements of Rule 15c2-12.

(e) Failure to Comply; Remedies. If the State fails to comply with any provision of this Section 3.02, any person aggrieved thereby, including the Registered Owner of any outstanding Bond of a series, may take whatever action at law or in equity as may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this Section 3.02. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder. Notwithstanding anything to the contrary contained herein, in no event shall a default under this Section 3.02 constitute a default with respect to the Bonds or under any other provision of this Order.

(f) Further Limitation of Liability of State. If and to the extent the limitations of liability contained in subparagraph (e) are not effective, anything contained in this Section 3.02 to the contrary notwithstanding, in making the agreements, provisions and covenants set forth in this Section 3.02, the State has not obligated itself to pay damages resulting from any violation thereof. None of the agreements or obligations of the State contained herein shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever or constitute a pledge of the full faith and credit or taxing powers of the State, a waiver of the State's sovereign immunity, or a waiver of any of the limitations contained in Minnesota Statutes, Section 3.736, except as provided under the laws of the State.

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APPENDIX H

FORM OF LEGAL OPINION

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October 11, 2022

The Honorable James Schowalter
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: \$338,300,000 State of Minnesota State General Fund Appropriation Refunding Bonds,
Series 2022A

Dear Commissioner:

We certify that we have examined proceedings taken and facts and estimates certified by the Commissioner of Management and Budget of the State of Minnesota (the "State") on behalf of the State, preliminary to and in connection with the issuance of \$338,300,000 State General Fund Appropriation Refunding Bonds, Series 2022A, dated October 11, 2022 (the "Series 2022A Bonds"). The Series 2022A Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State, including, in particular, Minnesota Statutes, Sections 16A.99 (the "Act"), and the Order dated October 11, 2022 of the Commissioner of Management and Budget (the "Order") authorizing issuance of the Series 2022A Bonds for the purpose of refunding the outstanding State of Minnesota State General Fund Appropriation Refunding Bonds, Tax-Exempt Series 2012B, issued in the original principal amount of \$601,555,000. We have also examined the constitution and statutes of the State, the form of bond prepared for this issue, the decision of the Minnesota Supreme Court in *Schowalter v. State*, 822 N.W.2d 292 (Minn. 2012), pertaining to general fund appropriation bonds of the State, and such certified proceedings and other papers as we deem necessary to render this opinion as bond counsel. From such examination, assuming the authenticity of the proceedings examined and the correctness of the facts and estimates so certified, and based upon laws, regulations, rulings and judicial decisions now in effect, it is our opinion that:

1. The Series 2022A Bonds have been authorized and issued in accordance with the constitution and laws of the State, including, in particular, the Act, and constitute valid and binding special obligations of the State, payable in each fiscal year only from amounts appropriated by the Legislature of the State pursuant to the Act for such fiscal year. The Series 2022A Bonds are not public debt of the State subject to constitutional limitations on indebtedness, and the full faith, credit and taxing powers of the State are not pledged to the payment of the Series 2022A Bonds or to any payment that the State agrees to make under the Act and the Order. The State has not pledged any other revenue or asset for the payment of the principal of or interest on the Series 2022A Bonds.

2. Interest on the Series 2022A Bonds (a) is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax and (c) is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. For tax years beginning after December 31, 2022, interest on the Series 2022A Bonds may affect the federal alternative minimum tax imposed on certain corporations.

The opinions expressed in paragraph 2 above are subject to the condition of the State's compliance with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2022A Bonds in order that interest thereon may be, and continue to be, excludable from gross income for federal income tax purposes. Noncompliance by the State, following the issuance of the Series 2022A Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the

issuance of the Series 2022A Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2022A Bonds in gross income of the recipient for federal income tax purposes and in taxable net income for Minnesota income tax purposes, retroactive to the date of issuance of the Series 2022A Bonds. No provision has been made for an increase in the interest payable on the Series 2022A Bonds in the event that the interest payable thereon becomes includable in gross income for federal or Minnesota income tax purposes. Except as stated in this opinion, we express no opinion regarding federal, state and other tax consequences to holders of the Series 2022A Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

