NEW ISSUES – BOOK ENTRY ONLY

RATINGS: **Fitch:** AAA
Moody's: Aa1
Standard & Poor's: AAA
See "RATINGS" herein

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 Series 2018A Bonds and the Series 2018B Bonds (collectively, the "Tax-Exempt 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, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating federal alternative minimum taxable income for taxable years beginning prior to January 1, 2018. The interest to be paid on the Series 2018C Bonds is includable in gross income of owners thereof for federal income tax purposes, in taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. For a discussion of tax matters see "TAX MATTERS'' herein.

$619,720,000
STATE OF MINNESOTA
General Obligation State Bonds

consisting of:

$397,720,000 General Obligation State Various Purpose Bonds, Series 2018A

$206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B

$16,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2018C

(collectively referred to as the "Bonds")

Dated: Date of Delivery **Due: as shown on inside cover**

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE OF MINNESOTA (THE "STATE") AND THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE ARE IRREVOCABLY PLEDGED FOR THE PAYMENT OF THE BONDS AND INTEREST THEREON WHEN DUE.

The Bonds are subject to redemption and prepayment by the State as provided herein.

The Bonds will be available to the purchasers 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, which will act as securities depository for the Bonds. The Bank of New York Mellon Trust Company, N.A. is the Bond Registrar and Paying Agent for the Bonds.

This cover page contains certain information for quick reference only. It is *not* a summary of the Bonds or this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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, and of Kutak Rock LLP as to the tax exemption of the interest on the Bonds. Delivery will be made on or about Tuesday, August 21, 2018.

Dated: August 7, 2018

$619,720,000
State of Minnesota
General Obligation State Bonds

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

$397,720,000 General Obligation State Various Purpose Bonds, Series 2018A

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2019	$19,660,000	5.000%	1.480%	NT6
2020	19,660,000	5.000%	1.640%	NU3
2021	19,660,000	5.000%	1.790%	NV1
2022	19,660,000	5.000%	1.910%	NW9
2023	19,660,000	5.000%	2.010%	NX7
2024	19,660,000	5.000%	2.160%	NY5
2025	19,660,000	5.000%	2.270%	NZ2
2026	19,660,000	5.000%	2.390%	PA5
2027	19,660,000	5.000%	2.460%	PB3
2028	24,195,000	5.000%	2.530%	PC1

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2029	$19,660,000	5.000%	2.590%*	PD9
2030	19,660,000	5.000%	2.650%*	PE7
2031	19,660,000	5.000%	2.700%*	PF4
2032	19,660,000	5.000%	2.750%*	PG2
2033	19,660,000	5.000%	2.800%*	PH0
2034	19,660,000	5.000%	2.840%*	PJ6
2035	19,660,000	5.000%	2.880%*	PK3
2036	19,655,000	5.000%	2.920%*	PL1
2037	19,655,000	5.000%	2.960%*	PM9
2038	19,655,000	5.000%	2.980%*	PN7

$206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2019	$10,300,000	4.000%	1.450%	PP2
2020	10,300,000	5.000%	1.620%	PQ0
2021	10,300,000	5.000%	1.780%	PR8
2022	10,300,000	5.000%	1.900%	PS6
2023	10,300,000	5.000%	2.010%	PT4
2024	10,300,000	5.000%	2.160%	PU1
2025	10,300,000	5.000%	2.270%	PV9
2026	10,300,000	5.000%	2.390%	PW7
2027	10,300,000	5.000%	2.460%	PX5
2028	10,300,000	5.000%	2.550%	PY3

Maturity (August 1)	Amount	Interest Rate	Price or Yield	Initial CUSIP** 60412A
2029	$10,300,000	4.000%	2.650%*	PZ0
2030	10,300,000	3.000%	2.750%*	QA4
2031	10,300,000	4.000%	2.890%*	QB2
2032	10,300,000	4.000%	2.960%*	QC0
2033	10,300,000	3.375%	3.300%*	QD8
2034	10,300,000	3.500%	3.380%*	QE6
2035	10,300,000	4.000%	3.180%*	QF3
2036	10,300,000	3.250%	97.000	QG1
2037	10,300,000	4.000%	3.240%*	QH9
2038	10,300,000	3.500%	99.500	QJ5

$16,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2018C

$16,000,000 3.390% Serial Bond due August 1, 2028 Price: 100.082 Yield: 3.380% CUSIP No. 60412AQK2**

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*Priced at the stated yield to the August 1, 2028 redemption date at a price of 100%. See “THE BONDS, Optional Redemption” herein.

**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.

STATE OF MINNESOTA OFFICIALS

GOVERNOR	Mark Dayton
LIEUTENANT GOVERNOR	Michelle Fischbach
SECRETARY OF STATE	Steve Simon
STATE AUDITOR	Rebecca Otto
ATTORNEY GENERAL	Lori Swanson
LEGISLATIVE AUDITOR	James R. Nobles

COMMISSIONER OF MANAGEMENT AND BUDGET

Myron Frans

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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 Underwriters 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 Underwriters. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do 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 Summary Statement information is qualified in its entirety by the detailed information contained in this Official Statement)

Issuer:	State of Minnesota
Offering:	\$397,720,000 General Obligation State Various Purpose Bonds, Series 2018A (the "Series 2018A Bonds") \$206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B (the "Series 2018B Bonds") \$16,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2018C (the "Series 2018C Bonds") *(collectively referred to as the "Bonds")*
Principal Amounts:	The principal amounts of each serial maturity of the Bonds are set forth on the inside cover pages.
Interest:	Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, from the Dated Date of the Bonds, payable semiannually on each February 1 and August 1, commencing February 1, 2019.
Dated Date:	Date of Delivery, expected to be August 21, 2018.
Security:	General obligations of the State of Minnesota to which its full faith, credit and taxing powers are pledged.
Book-Entry Bonds:	The Bonds will be issued in fully registered form without interest coupons in denominations of \$5,000 and integral multiples thereof. 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.
Redemption:	The Series 2018A Bonds and the Series 2018B Bonds, are subject to optional redemption by the State on and after August 1, 2028. The Series 2018C Bonds are not subject to optional redemption prior to their maturity date. See "Optional Redemption" herein for additional information.

Continuing Disclosure:	See "CONTINUING DISCLOSURE" and APPENDIX G.
Bond Ratings:	The Bonds described herein have been rated "AAA" by Fitch Ratings, "Aa1" by Moody's Investors Service Inc. and "AAA" by S&P Global Ratings.
Registrar/Paying Agent:	The Bank of New York Mellon Trust Company, N.A.
Legal Opinions:	The Bonds are approved as to validity by the State Attorney General and Kutak Rock LLP, as Bond Counsel. Only Kutak Rock LLP will provide the Opinion regarding the tax exemption of interest on the Series 2018A Bonds and the Series 2018B Bonds.
Bonds Outstanding:	The total amount of State general obligation bonds outstanding on the date of issuance of the Bonds, including these issues will be approximately $6.5 billion. The total amount of general obligation bonds authorized but unissued as of the date of issuance of the Bonds, will be approximately $2.7 billion. See APPENDIX C, pages C-1 and C-2.
Additional Information:	Questions regarding this Official Statement should be directed to Jennifer Hassemer, Assistant Commissioner, Minnesota Management and Budget, jennifer.hassemer@state.mn.us, (651) 201-8079, Carol Swanson, Financial Analyst, Minnesota Management and Budget, carol.swanson@state.mn.us, (651) 201-8099, Thomas Huestis, Public Resources Advisory Group, thuestis@pragadvisors.com (610) 565-5990 or Christine Fay, Public Resources Advisory Group, cfay@pragadvisors.com (610) 565-5990. Questions regarding legal matters should be directed to Gregory R. Dietrich, Kutak Rock LLP, (402) 346-6000, Gregory.Dietrich@KutakRock.com.

STATE OF MINNESOTA
$619,720,000
General Obligation State Bonds
consisting of

$397,720,000 General Obligation State Various Purpose Bonds, Series 2018A
$206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B
$16,000,000 General Obligation State Taxable Various Purpose Bonds, Series 2018C

(collectively referred to as the "Bonds")

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 $397,720,000 General Obligation State Various Purpose Bonds, Series 2018A (the "Series 2018A Bonds"), the $206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B (the "Series 2018B Bonds") and the $16,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2018C (the "Series 2018C Bonds") (collectively referred to as 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 the constitutional and statutory authority as hereinafter described.

The Series 2018A Bonds in the aggregate principal amount of $397,720,000 are being issued for the purpose of financing all or a portion of the cost of certain programs and capital projects, the types of which generally include educational facilities, parks, pollution control facilities, transportation, natural resources and agricultural enterprises.

The Series 2018B Bonds in the principal amount of $206,000,000 are being issued for the purpose of financing the cost of construction, improvement and maintenance of programs and projects of the State trunk highway system.

The Series 2018C Bonds in the principal amount of $16,000,000 are being issued for the purpose of developing the State's agricultural resources by financing the Rural Financing Authority's programs.

Constitutional Provisions.

Article XI, Section 5 of the Minnesota Constitution authorizes public debt to be incurred for (a) the acquisition and betterment of public land, buildings and other improvements of a capital nature, or for appropriations or loans to State agencies or political subdivisions for this purpose, as the Legislature by a three-fifths vote of both the House of Representatives and the Senate may direct; (b) repelling invasion or suppressing insurrection; (c) borrowing temporarily; (d) refunding outstanding bonds of the State or its agencies; (e) the construction of improvements to and maintenance of the State's trunk highway system; (f) promoting forestation and preventing and abating forest fires; (g) the construction, improvement and operation of airports and other air navigation facilities; (h) the development of the agricultural resources of the State by extending credit on real estate security; and (i) improving and rehabilitating railroad rights-of-way and other rail facilities; all as the Legislature may direct. Article XI requires all such debt to be evidenced by the issuance of State bonds maturing within 20 years of their date of issue, for which the full faith and credit and taxing powers of the State are irrevocably pledged. Public debt is defined by Article XI, Section 4 to include any obligation payable directly, in whole or in part, from a tax of statewide application on any class of property, income, transaction or privilege, but does not include any obligation which is payable from revenues other than taxes. The Minnesota Constitution places no limitation on the interest rate of bonds that may be authorized for these purposes.

Statutory Provisions.

The Series 2018A Bonds and the Series 2018C Bonds are authorized by Minnesota Statutes, Sections 16A.631 through 16A.675. The Series 2018B Bonds are authorized by Minnesota Statutes, Sections 167.50 through 167.52.

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Session Law Provisions.

Session laws authorizing the issuance of the Series 2018A Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	Bonds This Issue[2]
Session 2000, Chapter 492	$ 115,000
Session X2010, Chapter 1	800,000
Session 2012, Chapter 293	300,000
Session X2012, Chapter 1	700,000
Session 2014, Chapter 294	11,200,000
Session X2015, Chapter 5	2,000,000
Session 2017, Chapter 4	4,535,000
Session X2017, Chapter 8	271,800,000
Session 2018, Chapter 214	170,400,000
Total:	$ 461,850,000

Session laws authorizing the issuance of the Series 2018B Bonds and the amounts included in this issue are set forth below ("X" indicates Special Session Laws):[1]

Law Authorizing	Bonds This Issue
Session 2008, Chapter 152	$ 96,300,000
Session 2012, Chapter 287	170,000
Session 2013, Chapter 117	10,750,000
Session X2015, Chapter 5	8,400,000
Session X2017, Chapter 3	85,000,000
Session 2018, Chapter 214	5,380,000
Total:	$ 206,000,000

Session laws authorizing the issuance of the Series 2018C Bonds and the amounts included in this issue are set forth below.

Law Authorizing	Bonds This Issue
Session 2017, Chapter 4	$ 500,000
Session 2018, Chapter 214	15,500,000
Total:	$ 16,000,000

[1]See also the table "GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED" on page C-2 and "PROJECT DESCRIPTION" included in APPENDIX D.
[2] Including net premium deposited into the Capital Projects Fund.

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 hereof. Such interest is computed on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds is payable to Bondholders as of the 15th day of the preceding month semiannually on each February 1 and August 1 to maturity or prior redemption, if any, commencing February 1, 2019. If principal or interest is due on a date on which commercial banks are not open for business in the states of Minnesota and New York, 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, 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."

Optional Redemption

The Series 2018A Bonds and the Series 2018B Bonds maturing on or before August 1, 2028 will not be subject to redemption prior to their stated maturity dates. The Series 2018A Bonds and the Series 2018B Bonds maturing on or after August 1, 2029 will be subject to redemption and prepayment by the State at its option on August 1, 2028 and any business day thereafter, in whole or in part, in an order determined by the State and by lot within each maturity at a price of par plus accrued interest to the date specified for redemption.

The Series 2018C Bonds are not subject to redemption prior to their stated maturity date.

Notices of Redemption

So long as the Bonds are registered in the name of the nominee of DTC or another securities depository designated for this purpose as indicated in the section hereof entitled "BOOK ENTRY SYSTEM," notice of any redemption of Bonds will be mailed only to such securities depository, which in turn is obligated to notify its participants who are obligated to notify the Beneficial Owners (as herein defined) of the Bonds. However, the State assumes no responsibility with respect to the giving of such notice of redemption by the securities depository or its participants.

If, in the future, the Bonds are not in book entry form, notice of any redemption of Bonds will be published in financial newspapers circulated in the Minneapolis-St. Paul metropolitan area and in the Borough of Manhattan, City and State of New York, not less than thirty days before the redemption date, stating: (i) the series, original date of issue, maturity dates, CUSIP numbers, and interest rates of the Bonds to be redeemed, (ii) if less than all Bonds of any maturity are to be redeemed, the registration numbers of those to be redeemed, (iii) the principal amount to be redeemed if less than the entire principal amount of any Bond, (iv) the redemption date and price and the name and address of the paying agent where such Bonds must be presented for payment, (v) that on the redemption date the redemption price of the Bonds or portions thereof to be redeemed will be payable, and (vi) that after the redemption date interest will cease to accrue or be payable thereon. Notice will also be mailed to the registered owner of any such Bond at the address shown on the bond register, not less than twenty days before the redemption date.

Notice of redemption having been so given, the Bonds or portion of Bonds therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the paying agent so as to be available therefor, interest thereon shall cease to accrue, and such Bonds or portions thereof shall no longer be considered outstanding under the Commissioner's order authorizing their issuance. The failure to publish notice of redemption shall not affect the validity or effectiveness of mailed notice, and the failure to mail notice to any registered owner, or any defect in the notice mailed to any registered owner, shall not affect the validity or effectiveness of the notice of redemption mailed to any other registered owner.

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SECURITY[1]

State Bond Fund and Property Tax: The Bonds are issued as general obligations of the State, and the laws authorizing their issuance pledge the full faith and credit and taxing powers of the State to the payment of the principal of and interest on the Bonds when due. The Minnesota Constitution, Article XI, requires the maintenance of a State bond fund (the "Debt Service Fund"), and provides that when the full faith and credit of the State has been pledged for the payment of State general obligation bonds, the State Auditor is required to levy each year a tax on all taxable property in the State in the amount needed, if any, along with the balance then on hand in the Debt Service Fund, to pay all principal and interest due and to become due on such State bonds through July 1 of the second ensuing year.

General Fund Appropriations: Article XI of the Minnesota Constitution also provides that no money is to be paid out of the State Treasury except pursuant to an appropriation. Each law authorizing the issuance of general obligation bonds appropriates moneys either directly or by reference to Minnesota Statutes, Chapter 16A, to the Debt Service Fund out of the General Fund (the "General Fund" as defined on page B-1) and, in some cases, from special enterprise or loan repayment funds, sufficient to provide for the payment of such bonds and interest thereon without the levy of a property tax otherwise required by the provisions of the Minnesota Constitution. Moneys on hand in the Debt Service Fund, including all moneys derived from: (i) the foregoing statutory appropriations; (ii) the levy of the State property tax required by the Minnesota Constitution if the amount of appropriated funds on hand does not equal the total required amount of the tax at the time the levy is required; and (iii) income from the investment of the foregoing, are appropriated for the payment of the principal of and interest on State general obligation bonds when due. If moneys on hand at the due date are not sufficient, the statutes also appropriate from the General Fund an amount equal to the deficiency. Since 1966, as a result of transfers of moneys to the Debt Service Fund from the General Fund each December, no State property tax has been levied to pay debt service on State general obligation bonds.

Minnesota Statutes, Section 16A.641, makes an annual appropriation to the Debt Service Fund from the General Fund of the amount that, added to the amount already on hand in the Debt Service Fund, is an amount needed to pay the principal of and interest on all State bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the General Fund to the Debt Service Fund for the Bonds included in this issue will be made by December 1 of each year. (Also see information on page C-5 with respect to the Debt Service Fund transfer.)

Additional Security — State Trunk Highway Bonds: The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund" or "State Trunk Highway Fund") to be used solely for trunk highway system purposes and for the payment of principal of and interest on trunk highway bonds. Article XIV provides that the payment of the principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62% to the Trunk Highway Fund, 29% to the County State Aid Highway Fund, and 9% to the Municipal State Aid Street Fund. The remaining 5% of Highway User Tax Distribution Fund revenues is distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the formula allocating the 5% may be made within six years of the last previous change. The current distribution formula was established in the 1998 Legislative Session. During the 2017 Legislative Sessions there were changes made to the formulas prescribing how the amounts deposited to the County State Aid Highway Fund are distributed to individual counties.

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[1] 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.

Minnesota Statutes, Section 167.51, makes an annual appropriation to the trunk highway bond account in the Debt Service Fund from the State Trunk Highway Fund of the amount that, when added to the amount already on hand in the trunk highway bond account in the Debt Service Fund, is the amount needed to pay the principal of and interest on all State trunk highway bonds due and to become due through July 1 in the second ensuing year. The transfer of the debt service appropriation from the State Trunk Highway Fund to the trunk highway bond account in the Debt Service Fund for the State trunk highway bonds included in this issue will be made by December 1 of each year.

Waiver of Immunity: Under Minnesota Statutes, Section 3.751, the State has waived immunity from suit with respect to the controversies arising out of its debt obligations incurred pursuant to Article XI of the Minnesota Constitution, and has conferred jurisdiction on State District Courts to hear and determine such controversies. Accordingly, if the State fails to pay in full the principal of and interest on the Bonds when due, a holder of a Bond on which principal or interest is past due is entitled to commence an action in the District Court for Ramsey County, Minnesota, to enforce the pledge of the State's full faith and credit to the payment of such principal and interest.

SOURCES AND USES OF FUNDS

Various Purpose Bonds

Sources:	**Series 2018A Bonds**	**Series 2018C Bonds**	**Total**
Par Amount of Bonds	$397,720,000.00	$16,000,000.00	$413,720,000.00
Net Premium on Bonds	65,383,257.95	13,120.00	65,396,377.95
Total Sources	$463,103,257.95	$16,013,120.00	$479,116,377.95
Uses:			
Capital Projects Fund	$461,438,000.00	$15,993,280.00	$477,431,280.00
Deposit to State Bond Fund	4,417.15	6,720.00	11,137.15
Underwriters' Discount	1,248,840.80	6,400.00	1,255,240.80
Cost of Issuance	412,000.00	6,720.00	418,720.00
Total Uses	$463,103,257.95	$16,013,120.00	$479,116,377.95

Trunk Highway Bonds

Sources:	**Series 2018B Bonds**
Par Amount of Bonds	$206,000,000.00
Net Premium on Bonds	18,667,411.00
Total Sources	$224,667,411.00
Uses:	
Capital Projects Fund	$205,788,000.00
Deposit to State Bond Fund	18,286,673.15
Underwriter's Discount	380,737.85
Cost of Issuance	212,000.00
Total Uses	$224,667,411.00

FUTURE FINANCINGS

The State anticipates the issuance of the following transactions by the State and State entities within the next six months:

Pursuant to Minnesota Statutes, Section 462A.37, the Minnesota Housing Finance Agency ("MHFA") received additional authorizations by the 2014 Legislature to issue up to $80,000,000, which the 2017 Legislature increased to $95,000,000 ("2014 MHFA Authorization"), by the 2015 Legislature to issue up to $10,000,000, which the 2017 Legislature increased to $15,000,000 ("2015 MHFA Authorization") by the 2017 Legislature to issue up to $35,000,000 ("2017 MHFA Authorization"), and by the 2018 Legislature to issue up to $80,000,000 ("2018 MHFA Authorization") of housing infrastructure bonds that are supported by a state general fund appropriation. MHFA previously issued $92,290,000 of the 2014 MHFA Authorization and $7,290,000 of the 2015 MHFA Authorization. MHFA anticipates issuing up to $30,000,000 under one or more of the remaining authorizations in September 2018.

Pursuant to Laws 2018, Chapter 214, Article 6, Section 1, the Commissioner of Management and Budget may sell state appropriation bonds backed by the constitutionally-dedicated environmental and natural resources trust fund to finance up to $98 million in project costs for projects meeting the public purposes of the fund. These bonds are not backed by the state general fund and will only be payable from available amounts in the environmental and natural resources trust fund. The State anticipates issuing approximately $98 million of these bonds in October 2018.

See "APPENDIX C - STATE DEBT, CONTINGENT LIABILITIES, State Continuing Appropriations" and "APPENDIX C - STATE DEBT, OBLIGATIONS OF STATE AGENCIES."

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 effect 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, redemption price 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, redemption price 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 Tax-Exempt 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 Series 2018A and the Series 2018B (collectively, the "Tax-Exempt 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. The interest to be paid on the Tax-Exempt Bonds is included in adjusted current earnings of corporations in determining the alternative minimum taxable income of such corporations for purposes of the federal alternative minimum tax for taxable years beginning prior to January 1, 2018.

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), 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 Internal Revenue Code of 1986, as amended (the "Code"), may cause interest on the Tax-Exempt Bonds to become subject to federal and Minnesota income taxation retroactive to the date of issuance of the Tax-Exempt 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 Tax-Exempt Bond proceeds and the facilities and activities financed or refinanced therewith and certain other matters. The documents authorizing the issuance of the Tax-Exempt 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 Tax-Exempt Bonds. However, no provision is made for redemption of the Tax-Exempt Bonds or for an increase in the interest rate on the Tax-Exempt Bonds in the event that interest on the Tax-Exempt Bonds becomes subject to federal or Minnesota income taxation.

Discount Bonds. The Series 2018B Bonds having a stated maturity in the years 2036 and 2038 (the "Discount Bonds") are being sold at a discount from the principal amount payable on the Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes to the same extent that stated interest on such Discount Bonds would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under Section 1288 pursuant to a constant yield method that reflects semiannual compounding on days that are determined by reference to the maturity date of the applicable Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of: (1) the product of (a) one-half of the yield to maturity on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable on such Discount Bond for such semiannual accrual period. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Discount Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Discount Bond.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount.

Purchasers of Discount Bonds should consult their own tax advisors with respect to computation and accrual of original issue discount and with respect to the state and local tax consequences of owning and selling such Discount Bonds.

Premium Bonds. All maturities of the Series 2018A Bonds and the Series 2018B Bonds having a stated maturity in the years 2019 through 2035 and 2037 (the "Premium Bonds"), are being issued at a premium to the principal amount payable at maturity. 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.

Recognition of Income Generally. Section 451 of the Code was amended by Pub. L. No. 115-97, enacted December 22, 2017 (sometimes referred to as the Tax Cuts and Jobs Act), to provide that taxpayers using an accrual method of accounting for federal income tax purposes generally will be required to include certain amounts in income, including original issue discount and market discount, no later than the time such amounts are reflected on certain financial statements of such taxpayer. The application of this rule may require the accrual of income earlier than would have been the case prior to the amendment of Section 451 of the Code. The rule generally applies to taxable years after 2017, except that in the case of income from a debt instrument having original issue discount, the rule does not apply until taxable years after 2018. Investors should consult their own tax advisors regarding the application of this rule and its impact on the timing of the recognition of income related to the Tax-Exempt Bonds under the Code.

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 Tax-Exempt Bonds in determining the taxability of such benefits;

(2) passive investment income, including interest on the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds for this purpose even though not directly traceable to the purchase of the Tax-Exempt Bonds;

(6) federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Tax-Exempt 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 Tax-Exempt Bonds within the meaning of Section 265(b) of the Code; and

(8) receipt of interest on the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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.

The Taxable Bonds

General. The interest on the Series 2018C Bonds is included in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. Purchasers of the Series 2018C Bonds should consult their own tax advisors as to the federal, state or local tax consequences of purchasing, owning or selling the Series 2018C Bonds.

Backup Withholding. Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the Series 2018C Bonds if the purchasers, upon issuance, fail to supply their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide a certified statement, under penalty of perjury, that they are not subject to backup withholding.

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.

LEGAL OPINIONS

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 forms of legal opinions to be issued by Kutak Rock LLP with respect to the Bonds are 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. Selected statements from the State's most recent audited financial statements are included as APPENDIX F.

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, 2017, 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.

The Bank of New York Mellon in its capacity as Trustee of NSP Minnesota Prairie I Retail Qualified Trust v. COR; The Bank of New York Mellon in its capacity as Trustee of NSP Minnesota Retail Prairie II QUA; The Bank of New York Mellon in its capacity as Trustee of NSP Monticello Minnesota Retail QUA v. COR (Minnesota Tax Court). These cases involve the trusts organized under Pennsylvania law that were established by Northern States Power Company, a predecessor to Xcel Energy, Inc., to provide sufficient funds to decommission each of these nuclear power plants upon the conclusion of their respective useful lives. The trusts are each Qualified Nuclear Decommissioning Reserve Funds under section 468A of the Internal Revenue Code. The Department of Revenue expects that the material adverse effect of these and future cases may exceed $15 million.

Foster v. State of Minnesota et al. (Eighth Circuit Court of Appeals). The Eighth Circuit affirmed the federal district court's dismissal. Plaintiff had until July 19, 2018 to petition the U.S. Supreme Court for certiorari review.

Hall v. State of Minnesota et al. (Minnesota Supreme Court). The Minnesota Supreme Court affirmed the dismissal of claims concerning property that was not interest-bearing when sent to the Department of Commerce, but held that one plaintiff stated a takings claim when she alleged that interest-bearing property was sent to the Department. The time for the plaintiffs to petition the U.S. Supreme Court regarding non-interest-bearing property expired on June 5, 2018. The remaining claim on interest-bearing property is now being litigated in the Ramsey County District Court. The Department does not believe that the state's exposure on the remaining claim, even accounting for a potential class certification and attorney fees, could exceed $15 million.

H.B. Fuller Co. and Subsidiaries v. Commissioner of Revenue, and other similar matters (Minnesota Tax Court and Second Judicial District Court – Ramsey County). Cross motions for summary judgment were taken under advisement in May and an order on the motions is expected in August 2018.

Kiminski v. Hunt et al (formerly Beach/Ness v. Hunt et al.) and similar matters. The Eighth Circuit has affirmed the dismissal of state defendants in each case it has decided. One case is pending on appeal while another case remains pending in the district court while it addresses the claims against non-state defendants.

Ligons, et al. v. Minnesota Department of Corrections, et al. (U.S. Dist. Ct., Minnesota). Plaintiffs filed a third amended complaint in December 2017. Defendants answered the third amended complaint. The court reopened class discovery. Defendants' renewed motion for summary judgment and Plaintiffs' motion for class certification was heard on July 27, 2018.

Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue (Minnesota Tax Court). The Minnesota Supreme Court affirmed the tax court's decision in MERC's second appeal, leaving the amount of the refund unchanged. All subsequent years in litigation have been resolved by settlement.

Walgreens Specialty Pharmacy v. Commissioner of Revenue (Minnesota Tax Court). The Commissioner appealed the grant of summary judgment to Walgreens Specialty. The case was argued at the Minnesota Supreme Court in April 2018.

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.

The State did not timely file certain required notices of rating changes for the insurance entities and underlying ratings related to the following bonds: (i) the $42,205,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2008, insured by Assured Guaranty; (ii) the $60,510,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2009, insured by Assured Guaranty; and (iii) the $345,000,000 State of Minnesota General Obligation State Bonds dated August 1, 2006, in which the August 1, 2026 maturity, $14,585,000, is insured by MBIA. The State has posted corrective event notices on EMMA.

The State did not timely file certain Operating data ("Financials") for the (i) $35,000,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2006 and the (ii) $42,205,000 State of Minnesota 911 Revenue Bonds (Public Safety Radio Communications System Project), Series 2008 for the year ended June 30, 2013. Such filing was due on December 31, 2013, but was not filed until March 27, 2014. In addition, the State inadvertently did not file notice in a timely manner with the Municipal Securities Rulemaking Board ("MSRB") through its EMMA system. The State is in the process of posting a corrective event notice on EMMA.

In November of 2014, the State submitted a report to the Securities and Exchange Commission (the "SEC") in response to its Municipal Continuing Disclosure Cooperation Initiative (the "MCDC"). The MCDC provided an opportunity for underwriters and municipal issuers to self-report instances where official statements of municipal issuers failed to report instances in which the municipal issuer failed to comply with its continuing disclosure undertakings.

On August 24, 2016, the SEC issued a Cease-and-Desist Order (the "Order") pursuant to which the State has undertaken the following:

a. Within 180 days of the entry of the Order, establish appropriate written policies and procedures and periodic training regarding continuing disclosure obligations to effect compliance with the federal securities laws, including the designation of an individual or officer at the State responsible for ensuring compliance by the State with such policies and procedures and responsible for implementing and maintaining a record (including attendance) of such training.

b. Within 180 days of the entry of the Order, comply with existing continuing disclosure undertakings, including updating past delinquent filings if the State is not currently in compliance with its continuing disclosure obligations.

c. Disclose in a clear and conspicuous fashion the terms of the Order in any final official statement for an offering by the State within five years of the entry of the Order.

d. Certify, in writing, compliance with the undertakings set forth above.

e. Cooperate with any subsequent investigation by the SEC's Division of Enforcement regarding the false statement(s) and/or material omission(s), including the roles of individuals and/or other parties involved.

Prior to the entry of the Order, the State (i) established written policies and procedures to improve compliance with continuing disclosure obligations, including the designation of an individual responsible for ensuring compliance with such policies and procedures, and (ii) implemented a review of past filings to ensure compliance with existing continuing disclosure undertakings and updated past delinquent filings in the final official statement, dated August 5, 2015, for the State's $1,076,980,000 State of Minnesota, General Obligation Bonds, Series 2015A-E. On August 11, 2017, the State certified compliance with the Order to the SEC.

MUNICIPAL ADVISOR

Public Resources Advisory Group, New York, New York, 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 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.

UNDERWRITING

The Commissioner acting on behalf of the State has sold the Series 2018A Bonds at public sale to Citigroup Global Markets Inc., as Series 2018A Underwriter, for a price of $461,854,417.15, with the Series 2018A Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2018B Bonds at public sale to Morgan Stanley & Co, LLC, as Series 2018B Underwriter, for a price of $224,286,673.15, with the Series 2018B Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

The Commissioner acting on behalf of the State has sold the Series 2018C Bonds at public sale to Morgan Stanley & Co, LLC, as Series 2018C Underwriter, for a price of $16,006,720.00, with the Series 2018C Bonds to bear interest at the rates set forth on the inside front cover page of this Official Statement.

Morgan Stanley & Co. LLC., an underwriter of the Series 2018B Bonds and Series 2018C Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2018B Bonds and the Series 2018 C Bonds.

Citigroup Global Markets Inc. and Morgan Stanley & Co, LLC collectively are referred to as the Underwriters, herein.

RATINGS

The Bonds described herein have been rated "AAA" by Fitch Ratings, "Aa1" by Moody's Investors Service Inc. and "AAA" by S&P Global Ratings. The ratings reflect only the views of these services. These bond ratings are subject to change or withdrawal by the rating agencies at any time. Therefore, after the date hereof investors should not assume that such ratings are still in effect. A revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

AUTHORIZATION OF OFFICIAL STATEMENT

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

/s/ Myron Frans
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. 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.
- To receive and account 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 2017 basic financial statements are presented in APPENDIX F and general long-term debt unaudited schedules are presented in APPENDIX C.

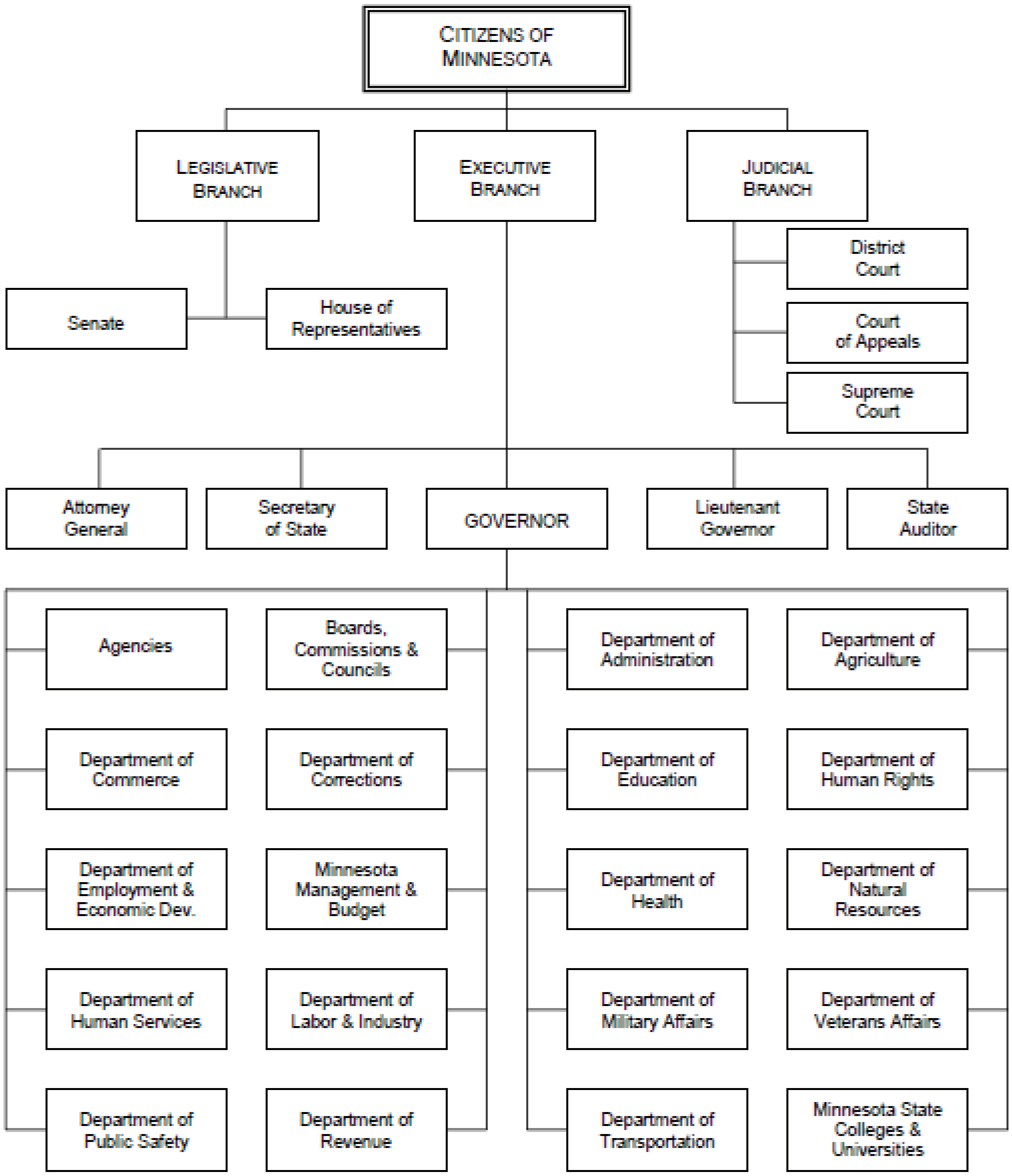
Investments

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 regulations 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 16 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"). Each odd-numbered year, the MMB negotiates the terms and conditions of employment with the seven exclusive representatives for employees covered by one of the 13 non-faculty labor agreements for executive branch State employees. The Department also reviews compensation plans for employees not represented by a union. All contracts and compensation plans are subject to review and approval by the Legislature. The following is a summary that shows the number of employees assigned to State bargaining units.

INFORMATION ON STATE BARGAINING UNITS

Unit	Employees as of April 2018
American Federation of State, County and Municipal Employees (AFSCME) (7 bargaining units)	16,734
MN Association of Professional Employees (MAPE)	14,503
Middle Management Association (MMA)	3,139
MN Government Engineers Council (MGEC)	1,066
MN Nurses Association (MNA)	806
MN Law Enforcement Association (MLEA)	751
State Residential Schools Education Association (SRSEA)	179
State College Faculty Association (MSCF)	4,573
State University Interfaculty Organization (IFO)	3,635
State University Admin and Service Faculty (MSUAF)	830
Total Represented Employees	46,216
Total State Employment	52,208
Percent of All Executive Branch Employees Unionized	89%

Previous Biennium Labor Agreements for all bargaining units expired on June 30, 2017. 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 State has entered into final agreements with eight of nine non-faculty unions: AFSCME (units 2, 3, 4, 6 and 7); AFSCME Unit 8; AFSCME Unit 25; MAPE; MMA; MNA; MGEC and SRSEA bargaining units for the Current Biennium. Minnesota State has also entered into final agreements with the faculty unions: MSUAF, MSCF, and IFO. The State is still in the process of negotiating with one remaining unit: MLEA.

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, 2017, 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 2015 through 2017 are summarized on page B-6.

Past Financial Reports

The State's Comprehensive Annual Financial Reports, including information by individual fund for Fiscal Year 2017 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" later 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 Comprehensive Annual Financial Report ("CAFR") (see APPENDIX F) 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 CAFR, 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.

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, End of 2018 Legislative Session – Current Biennium, Reserves" below.

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 standard and ad hoc 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 "unalloting."

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.

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 February 2018 baseline forecast from IHS, the scenario which IHS considered to be the most likely at the time it was made, was used for MMB's February 2018, revenue and expenditure forecast. The forecast growth rates for real and nominal Gross Domestic Product ("GDP") are shown below. IHS estimates potential GDP growth to average about 1.6 percent over the 2015 to 2019 period. Real GDP is projected to exceed potential over the 2015-2019 period as the economy expands with falling unemployment and productivity returning to normal levels. Inflation, as measured by the implicit price deflator for GDP, is expected to be a moderate increase.

IHS FEBRUARY 2018
GROSS DOMESTIC PRODUCT (GDP)
BASELINE FORECAST
(Chained Rates of Growth)

	Calendar Year 2015 Actual %	Calendar Year 2016 Actual %	Calendar Year 2017 Actual %	Calendar Year 2018 Forecast %	Calendar Year 2019 Forecast %
Real GDP Growth Rate	2.9	1.5	2.3	2.7	2.7
GDP Deflator (Inflation)	1.1	1.3	1.8	2.3	2.4
Nominal GDP Growth Rate	4.0	2.8	4.1	5.0	5.1

A report is published with each forecast and is available at https://mn.gov/mmb/forecast/. The February 2018 Forecast was released February 28, 2018, (the "February 2018 Forecast"). See "FINANCIAL INFORMATION" in this APPENDIX B. The November 2018 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 2018 are now estimated to total $22.034 billion, $348 million (1.6 percent) more than projected in the February 2018 Budget and Economic Forecast. Higher than expected net individual income tax, corporate tax receipts, and other receipts more than offset net sales tax receipts that were less than forecast. General Fund revenues for FY 2018 are now estimated to be 4.7 percent greater than in FY 2017. State revenues in the final quarter of FY 2018 were $342 million more than forecast.

Net individual income tax receipts are estimated to end the year $330 million (2.9 percent) more than forecast. Gross income tax receipts were $275 million above the forecast, and refunds were $54 million less than expected.

Net collections associated with tax year 2017 final returns and extensions were about $280 million more than forecast. The State will not know final tax year 2017 income tax liability until extension return filing and processing is completed at the end of 2018. However, approximately $50 million of that variance is from taxes paid on the income of estates and trusts. It is also likely that non-wage income reported on returns filed by individuals—particularly capital gains—grew faster in tax year 2017 than forecast.

Preliminary evidence from federal 2017 income tax returns processed through May 23, 2018, suggests that the share of U.S. capital gains realizations in adjusted gross income was 3.8 percent in 2017, compared to 2.9 percent in 2016.[1] This represents roughly 31 percent year-over-year growth in capital gains on returns processed through May. The State will know more about 2017 Minnesota non-wage income when the information from a preliminary sample of 2017 tax returns becomes available in early 2019.

[1] See late May filing statistics for 2017 and 2018 here: https://www.irs.gov/statistics/filing-season-statistics. *Please note this website address is provided for the convenience of the reader. No representation is made by the State as to the privacy practice of the website, nor is the State liable for the content or availability of the listed site.*

On net, payments generally associated with calendar year 2018 activity—income tax withholding and estimated payments, including those of fiduciaries and non-resident partnerships —were about $50 million more than forecast. Withholding payments were $10 million above the forecast, and estimated payments were about $40 million more than forecast.

Net general sales tax receipts are estimated to end FY 2018 $56 million (1.0 percent) less than forecast. Lower than expected gross receipts and higher than expected refunds both contribute to that variance.

United States Supreme Court Decision - South Dakota v. Wayfair

The recent United States Supreme Court decision in South Dakota v. Wayfair has the effect of requiring remote sellers to remit sales tax to the State of Minnesota. The Minnesota Department of Revenue anticipates providing guidance to sellers within 30 days of the ruling. The State has not yet estimated the revenue impact in Minnesota but it is expected it will result in an increase in sales tax receipts relative to the February 2018 Forecast in the General Fund and other State funds that receive sales tax revenue. The November 2018 Forecast will include any estimated impact of the decision on revenues.

HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the State's General Fund revenues and expenditures for the Fiscal Years ended June 30, 2015 through 2017, 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)]		
	2015	2016	2017
NET REVENUES:			
Individual Income Taxes	$ 10,640,365	$ 11,013,385	$ 11,263,573
Corporation Income Taxes	1,503,461	1,414,531	1,272,913
Sales Taxes	5,138,575	5,217,805	5,442,302
Property Taxes	836,257	855,032	848,463
Motor Vehicle Taxes	278,085	286,219	301,443
Other Taxes	1,811,162	1,862,792	1,877,330
Tobacco Settlement	170,747	171,238	168,226
Federal Revenues	1,144	3,053	4,796
Licenses and Fees	215,960	222,306	233,905
Departmental Services	196,884	197,392	190,439
Investment/Interest Income	64,943	62,005	177,989
All Other Revenues	311,969	249,380	330,477
NET REVENUES	$ 21,169,552	$ 21,555,138	$ 22,111,856
EXPENDITURES:			
Current:			
Agricultural, Environmental and Energy Resources	$ 238,032	$ 251,055	$ 263,932
Economic and Workforce Development [(2)]	184,236	218,708	249,026
General Education [(3)]	8,275,184	8,600,102	8,962,695
General Government [(4)]	748,208	719,083	876,249
Health and Human Services [(5)]	6,053,433	5,956,678	6,443,833
Higher Education [(6)]	850,649	899,091	902,068
Intergovernmental Aid	1,583,093	1,626,221	1,644,033
Public Safety and Corrections	631,140	644,486	683,232
Transportation	363,266	407,206	452,701
Total Current Expenditures	$ 18,927,241	$ 19,322,630	$ 20,477,769
Capital Outlay	31,384	31,209	52,135
Debt Service	28,124	25,279	27,341
TOTAL EXPENDITURES	$ 18,986,749	$ 19,379,118	$ 20,557,245
EXCESS Of REVENUES OVER (UNDER) EXPENDITURES	$ 2,182,803	$ 2,176,020	$ 1,554,611
OTHER FINANCING SOURCES (USES)			
Bond Issuance	$ -	$ 4,672	$ -
Issuance of Refunding Bonds	3,930	-	-
Payment of Refunded Bonds Escrow Agent	(3,930)	-	-
Bond Issue Premium	248	819	-
Transfer-In	273,990	388,381	402,721
Transfer-Out	(2,112,030)	(1,678,689)	(1,597,690)
NET OTHER FINANCING SOURCES (USES)	$ (1,837,792)	$ (1,284,817)	$ (1,194,969)
NET CHANGE IN FUND BALANCES	$ 345,011	$ 891,203	$ 359,642

(1) For fiscal years 2015, 2016, and 2017, 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 2017, Economic and Workforce Development function increased due to grants for the expansion of broadband to rural communities.
(3) During fiscal year 2016 and 2017, General Education function spending increased due to a 2% per pupil increase and an increase in number of pupils.
(4) During fiscal year 2017, General Government function increased due to a new health insurance premium assistance program.
(5) During fiscal year 2017, Health and Human Services function spending increased due to an increase in enrollment and growth in costs for medical assistance.
(6) During fiscal year 2016 and 2017, Higher Education function spending increased due to an increase in grants to the University of Minnesota and the Office of Higher Education.

BIENNIUM BUDGETS

The biennium that began on July 1, 2015, and ended on June 30, 2017, is referred to herein as the "Previous Biennium." The biennium that began on July 1, 2017, and will end on June 30, 2019, is referred to herein as the "Current Biennium." The biennium that will begin on July 1, 2019, and will end on June 30, 2021, 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 2017 Forecast – Current Biennium

The November 2016 forecast provided the first official forecast for the Current Biennium, as well as revenue and expenditure planning estimates for the Next Biennium. In November 2016 a balance of $1.400 billion was projected for the Current Biennium. Revisions in the February 2017 Forecast increased the projected balance to $1.651 billion. General Fund revenues for the Current Biennium were forecast to be $45.663 billion, $3.228 billion (7.6 percent) higher than the Previous Biennium. General Fund expenditures for the Current Biennium were expected to be $44.741 billion, $2.924 billion (7.0 percent) higher than the Previous Biennium.

Revenues: Tax revenue was estimated to be $3.472 billion (8.6 percent) higher than the Previous Biennium. The forecast for individual income tax receipts was $2.475 billion higher than in Previous Biennium primarily resulting from forecast income growth in tax years 2017 and 2018. Projected higher gross tax receipts and lower refunds resulted in $886 million higher sales tax receipts than the Previous Biennium. The statewide property tax was expected to be $50 million higher. Biennial growth in tax revenues was offset slightly by reductions in non-tax revenues and other resources.

Expenditures: Expenditures for the Current Biennium were forecast to grow to $44.741 billion, $2.925 billion higher than the Previous Biennium, with the vast majority of that growth ($2.558 billion) within Health and Human Services programs, where costs are driven by health care enrollment and cost growth along with approximately $530 million that resulted from the payback of shifting among both state funds and budget periods in earlier budgets. Estimates for E-12 education spending were $845 million (4.8 percent) over estimated spending in the Previous Biennium. Biennial increases in E-12 spending are driven by pupil population growth, but are not adjusted for other cost drivers like projected compensation growth for teachers. Growth in expenditures in health and human services and E-12 education were offset by a net decrease of $479 million in all other areas of State government primarily due to the expiration of one-time expenditures in the Previous Biennium.

Reserves: The reserve amounts for the Current Biennium were largely unchanged from levels in the Previous Biennium. Total General Fund reserves were $1.993 billion, $15 million higher than Previous Biennium due to an increase in the Stadium Reserve Account balance. Balances projected for the Current Biennium in the February 2017 Forecast were: $1.603 billion in the Budget Reserve Account, $350 million in the Cash Flow Account and $40 million in the Stadium Reserve Account.

2017 Legislative Sessions – Current Biennium

During the 2017 regular and special legislative sessions the Legislature enacted a number of revenue and expenditure measures in the General Fund for the Current Biennium. The 2017 Legislative Sessions concluded May 25, 2017, with a balanced budget for the Current Biennium. The enacted budget included decreased net General Fund revenues by $657 million and appropriated an additional $800 million over the February 2017 Forecast base spending amount; changes were not made to the reserves. The Governor exercised his line item veto authority to strike operating appropriations for the house and senate which reduced projected spending by $129 million. The Legislature challenged the Governor's line item veto authority. By order dated September 8, 2017, the Minnesota Supreme Court upheld the line item vetoes. A June 26, 2017 stipulated district court order established temporary operating funding for the house and senate for three months totaling $16 million. The parties entered into stipulations regarding implementation of the June 26 district court order. After accounting for all revenue and expenditure changes enacted for the Current Biennium, along with the Governor's veto and subsequent district court order, the General Fund balance at the end of the biennium was estimated to be $163 million.

Revenues in Enacted Budget: The approved budget reflected changes in General Fund revenues from the February 2017 Forecast for the Current Biennium. Net General Fund Revenues totaled $45.006 billion, $657 million lower than February's estimates.

Tax Revenues: The Legislature enacted significant tax changes in the 2017 Legislative Sessions. In total, net tax revenues were projected to be $653 million lower than forecast. Tax law changes included income tax subtractions and credits for student loan debt, income tax subtractions for social security income, increased credits for dependent care expenses, enhancement of the research and development credit and reductions to the statewide property tax and estate tax. Additionally, current sales tax receipts for auto parts, rental cars, and motor vehicle leasing were dedicated to transportation funds which has the impact of reducing projected General Fund tax revenue.

Non-Tax and Other Revenues: Legislation enacted in the 2017 Legislative Sessions had minor impact on transfers, fees, fines, surcharges and other non-dedicated General Fund revenues. Total non-tax revenue was projected to be $1.397 billion, $4 million lower than the February 2017 Forecast.

Expenditures in Enacted Budget: After accounting for the court order establishing temporary appropriations for the house and senate, General Fund expenditures in the Current Biennium were expected to total $45.557 billion, $816 million higher than forecast estimates. Appropriations in State and local programs were made across all areas of the State budget. Significant appropriations were provided to E-12 education, higher education, public safety and judiciary, environment and agriculture, and economic development. Cost shifting in health and human services partially offset increases in other areas of the budget.

E-12 education expenditures were estimated to be $18.758 billion, $486 million higher than previously forecast. E-12 education spending represents 41 percent of total General Fund expenditures. The Legislature enacted major appropriations in education finance including a 2 percent increase in the basic education formula in each year ($371 million), and increases in early childhood education programs, including increases to Early Learning Scholarships ($20 million), and School Readiness Plus ($50 million).

Higher education spending was projected to be $3.279 billion, $210 million higher than February's projections. An additional $55 million was provided to the University of Minnesota, and an additional $106 million was provided to Minnesota State. An increase of $49 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 $3.641 billion in the Current Biennium, $190 million higher than February 2017 Forecast. Increases to local government aid (cities) and county program aid along with a new school building bond agricultural credit program drove the change.

Reductions of $466 million to Health and Human Services set the Current Biennium spending in the area at $13.858 billion. Health and human services was projected to account for 30 percent of total General Fund spending. Cost shifting of Medical Assistance program (Medical Assistance) spending from the General Fund to the Health Care Access Fund in the Current Biennium resulted in savings of $389 million. Payment delays to managed care providers resulted in savings of $172 million. Offsetting this savings was increased funding for family home visiting, agency operating increases, security hospital staffing increase, and personal care attendant funding.

Public safety and Judiciary spending was estimated to total $2.321 billion in the Current Biennium, an increase of $155 million over February 2017 Forecast. Significant increases in appropriations to the court operations and the department of corrections accounted for the majority of the change.

Jobs and economic development spending was expected to be $534 million in the Current Biennium, an increase of $165 million. Appropriations for the reinsurance at the Department of Commerce, and funding for broadband infrastructure account for the increase.

Spending in all other areas of the budget totaled $3.203 billion, $75 million higher than February projections. Accounting for the change was $95 million higher spending in General Fund transportation spending for transit operations and local road spending, $10 million in environment and agriculture, and $16 million in higher debt service and capital project appropriations included in the bonding bill. Partially offsetting the increase in all other areas was $46 million lower spending in State Government due to the line item veto of the house and senate appropriations.

Reserves in Enacted Budget: The reserve amounts for the Current Biennium were unchanged from levels projected in the February 2017 Forecast. Total General Fund reserves in the enacted budget were $1.993 billion: $1.603 billion in the Budget Reserve Account, $350 million in the Cash Flow Account and $40 million in the Stadium Reserve Account.

2017 November Forecast – Current Biennium

Actions during the 2017 regular and special legislative sessions as well as executive actions by the Governor and court ordered spending left a projected balance of $163 million for the Current Biennium. In November 2017, a lower revenue forecast and higher estimated spending, partially offset by a higher beginning balance carried forward from the Previous Biennium resulted in a forecast deficit of $188 million for the Current Biennium.

With the Supreme Court's decision upholding the Governor's line item veto of the house and senate appropriations, the November forecast for the Current Biennium did not include a significant portion of the appropriations for the legislature. While the actual amount spent by the house and senate ($15 million of the $16 million made available from the district court order) was included in the forecast, the remaining $114 million of the vetoed appropriations fell to the bottom line of the General Fund, since there was no legal authorization for the spending. If those appropriations had been included in the November 2017 forecast, the deficit for the Current Biennium would have increased to $302 million.

Revenues: Revenue in the Current Biennium was projected to reach $44.447 billion, a reduction of $559 million (1.2 percent) from prior forecast levels. All major taxes were projected lower than prior estimates with individual income tax receipts $461 million lower (1.9 percent), corporate tax receipts $155 million lower (5.9 percent), sales tax collections $65 million lower (0.6 percent) and the statewide property tax $16 million lower (1.0 percent). Non-major tax revenue sources and non-tax revenues were projected to be higher than end of session estimates partially offsetting the overall forecast reduction. Total revenue for the Current Biennium was still growing over the Previous Biennium with $1.962 billion (4.6 percent) more revenue projected be collected in the Current Biennium compared to Previous Biennium collections.

Expenditures: Spending in the Current Biennium was expected to be $398 million (0.9 percent) higher than estimates at the time of the enacted budget, and was estimated to be $45.955 billion. A large portion of the higher spending, $358 million, in the Current Biennium is the result of unspent appropriations from the Previous Biennium that carried forward and are available to be spent in the Current Biennium. The largest portion of that carryforward is $270 million for the health insurance premium subsidy and transition of care programs at MMB. Of that amount, $99 million was canceled in FY 2018 with the November 2017 Forecast, and then made available via contingent appropriations in the 2017 Legislative Sessions for expenditure at DHS for medical assistance and central office operations in the Current Biennium ($33 million) and medical assistance in the Next Biennium ($65 million).

A higher forecast for special education drove the increase of $121 million (0.6 percent) in E-12 education. Spending on special education services by school districts increased at a faster rate than previously projected. Growth in the number of children receiving special education services and higher costs both contributed to the increased forecast.

In health and human services ("HHS") savings from lower spending for long term care ($114 million lower), lower average payments for elderly and disabled basic care ($56 million savings) and lower enrollment of disabled individuals in basic care ($56 million lower) were offset by increased state General Fund obligations due to congressional failure to appropriate funding for the Children's Health Insurance Program ("CHIP"). The forecast included $178 million in additional medical assistance spending in the Current Biennium because congress had not authorized funding for this program that provides federal funding for some children's health care. These changes in addition to other smaller changes in HHS resulted in a minimal overall increase of $13 million (0.1 percent) for the Current Biennium.

Other spending changes in the forecast were small. A provision in Laws of 2017, Ch. 95 directing a $10 million transfer to the disaster contingency account in the special revenue fund was triggered when the closing balance in the Previous Biennium exceeded projections. Property tax aid and credit expenditures were $7 million higher due to increased property tax refunds while the Destination Medical Center forecast was down $3 million due to updated project timelines. Other non-forecast spending budgets remained at appropriated levels after accounting for carryforward from FY 2017.

Spending for debt service in the Current Biennium was nearly unchanged from prior estimates, down $2 million (0.2 percent).

Reserves: The Budget Reserve Account balance at the time of the November 2017 Forecast was $1.608 billion, $5 million higher than end of session due to a provision in Minnesota Statutes 79.251 that directs a portion of the prior calendar year excess surplus in the Minnesota Workers Compensation Assigned Risk Plan to the Budget Reserve Account.

The balance in the Stadium Reserve Account was expected to reach $55 million by the end of the biennium, $15 million higher due to an increased gambling tax forecast. The Cash Flow Account balance was unchanged at $350 million.

2018 February Forecast – Current Biennium

An improved revenue forecast and reduced spending estimates in the February 2018 Forecast added $518 million to the bottom line resulting in a projected budgetary balance of $329 million for the Current Biennium.

Revenues: Total General Fund revenues for the Current Biennium were forecast to be $44.801 billion, $353 million (0.8 percent) more than the November 2017 Forecast. All major revenue sources were forecast to be higher than November estimates. The February 2018 Forecast reflected increased state income and corporate tax revenues expected to arise from taxpayer responses to federal tax law changes in the Tax Cuts and Jobs Act ("TCJA").

Individual income tax receipts were forecast to be $25 million (0.1 percent) more than the prior estimate. This change was due to higher forecast growth in wage income from 2017 to 2019, which offset a lower estimate of tax liability for 2016, the base year for the forecast. In addition, the forecast reflected increased state income tax revenues expected to arise from taxpayer response to federal tax law changes in the TCJA. Those changes were estimated to add about $137 million to income tax revenues in the Current Biennium.

General sales tax revenue in Current Biennium was forecast to be $119 million (1.1 percent) more than the November 2017 Forecast. Higher expected gross sales tax receipts and a lower forecast of refunds both contributed to the change. Gross sales tax receipts in FY 2018 were lower than forecast in November 2017. However, the shortfall was more than offset by a higher forecast for taxable sales. In the forecast, the estimate of the taxable sales base was expected to grow 1.1 percentage points faster in 2018 and 1.6 percentage points faster in 2019 than assumed in November.

The corporate franchise tax was forecast $131 million (5.3 percent) more than the prior estimate. Higher forecast gross corporate payments and lower forecast refunds both contributed to the change. In addition, the forecast reflected increased state corporate tax revenues expected to arise from federal tax law changes in the TCJA. Those changes were estimated to add $19 million to corporate tax revenues in the Current Biennium.

Expenditures: Spending in the Current Biennium was forecast to be $45.789 billion, $167 million (0.4 percent) lower than November estimates. The two largest budget areas, accounting for 71 percent of the total General Fund budget, both showed lower projected spending in the forecast compared to prior estimates. E-12 education was expected to be $54 million (0.3 percent) lower largely due to actual special education spending coming in lower than prior estimates and thus reducing the forecast in future years; the forecast for growth in compensatory aid was also lower. HHS spending was expected to be $254 million (1.8 percent) lower than November forecast estimates. November HHS spending estimates included increased state obligations due to a federal funding lapse for the CHIP. In January 2018, the federal government appropriated funding for CHIP, which resulted in $225 million lower state General Fund obligations in Current Biennium.

Spending in all other areas of the General Fund budget, including property tax aids and credits and debt service, was $141 million (1.1 percent) higher than November estimates. The majority of the increase, $136 million, was due to two funding changes incorporated in the February 2018 Forecast:

- First, in the first week of the 2018 Legislative Session the legislature enacted a bill (Ch. 100) appropriating $129 million in operating funds for the House of Representative and the Senate. The November 2017 Forecast included $15 million in spending by the House and Senate, as ordered in June 2017 by the district court. Ch. 100 was retroactive to July 1, 2017 and the appropriations superseded and replaced the court ordered funding. The net fiscal impact of Ch. 100 compared to the November forecast was $114 million in higher spending.

- Second, Minnesota Statutes 16A.152 directs MMB to transfer up to $22 million from the General Fund to the clean water fund if a forecast determines that there will be a positive unrestricted balance at the end of the Current Biennium. This law was included in Ch. 1 from the 2017 Special Legislative Session. The November 2017 Forecast projected a deficit so the transfer did not occur. Before this transfer was triggered, the February 2018 Forecast projected a positive unrestricted balance of $351 million in the Current Biennium; after the transfer the projected balance fell to $329 million. The full $22 million was transferred with the February 2018

Forecast; absent a law change no further transfers to the clean water fund will occur with future budget forecasts.

Expenditures for property tax aids and credits were expected to be $8 million (0.2 percent) higher than November estimates due to higher than expected property tax refund spending. The debt service forecast in the biennium was $5 million (0.4 percent) lower than November estimates.

Reserves: The Budget Reserve Account balance of $1.608 billion and Cash Flow Account balance of $350 million were unchanged from the November 2017 Forecast. The Stadium Reserve Account balance was projected to be $58 million by the end of FY 2019, $2 million higher than November estimates due to a higher than projected gambling tax forecast.

2018 Legislative Session – Current Biennium

Budgetary changes made during the 2018 Legislative Session were minimal. The February 2018 Forecast projected an available balance of $329 million for the Current Biennium; legislative changes resulted in $66 million higher spending and $159 thousand higher revenues leaving a projected budgetary balance of $288 million for the Current Biennium.

Two bills, a tax bill and a supplemental spending bill, with larger revenue and expenditure impacts were vetoed by the Governor. As a result, only three bills with fiscal impact were signed into law after the February 2018 Forecast:

- A bill funding claims against the state and imprisonment and exoneration awards with a cost of $262 thousand.

- A pension reform bill which included increased state agency appropriations and increased aid to local governments and school districts to fund increased employer pension obligations resulted in $27 million in higher General Fund expenditures and $159 thousand in increased revenue. See "MINNESOTA DEFINED BENEFIT PENSION PLANS" section of this APPENDIX B for additional information.

- A capital budget bill that included $831 million in general obligation bond authorizations, $80 million in General Fund supported appropriations bonds and $41 million in cash supported projects resulted in $393 thousand in increased debt service costs compared to February 2018 Forecast levels and $38 million in net General Fund cash appropriations in the Current Biennium. The capital budget bill also reduced the Budget Reserve Account balances by $25 million leaving it at $1.583 billion.

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CURRENT BIENNIUM
GENERAL FUND – BUDGETARY BASIS
ESTIMATES OF REVENUE AND EXPENDITURES
END OF 2018 LEGISLATIVE SESSION
($'s in Thousands)[1]

	Enacted FY 2018	Enacted FY 2019	Current Biennium Total FY 2018-19
Actual & Estimated Resources			
Balance Forward From Prior Year	$3,333,262	$2,504,824	$3,333,262
Current Resources:			
Tax Revenues	20,927,502	22,036,351	42,963,853
Non-Tax Revenues	758,193	716,875	1,475,068
Subtotal - Non-Dedicated Revenue	21,685,695	22,753,226	44,438,921
Dedicated Revenue	594	611	1,205
Transfers In	153,716	153,680	307,396
Prior Year Adjustments	26,816	26,519	53,335
Subtotal - Other Revenue	181,126	180,810	361,936
Budget Changes - Taxes	-	-	-
Budget Changes - Non-Taxes	-	159	159
Subtotal-Current Resources	21,866,821	22,934,195	44,801,016
Total Resources Available	**25,200,083**	**25,439,019**	**48,134,278**
Actual & Estimated Spending			
E-12 Education	9,274,878	9,571,323	18,846,201
Higher Education	1,653,917	1,628,407	3,282,324
Property Tax Aids & Credits	1,733,795	1,921,907	3,655,702
Health & Human Services	6,697,113	6,922,300	13,619,413
Public Safety & Judiciary	1,168,904	1,170,598	2,339,502
Transportation	162,082	178,719	340,801
Environment	194,511	161,011	355,522
Agriculture	63,575	62,058	125,633
Jobs, Economic Development, Housing & Commerce	299,932	252,689	552,621
State Government & Veterans	759,555	561,252	1,320,807
Debt Service	563,123	575,401	1,138,524
Capital Projects & Grants	128,874	169,334	298,208
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Total Expenditures & Transfers	**22,695,259**	**23,159,999**	**45,855,258**
Balance Before Reserves	**2,504,824**	**2,279,020**	**2,279,020**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	1,608,364	1,583,364	1,583,364
Stadium Reserve	39,608	57,638	57,638
Budgetary Balance	**$506,852**	**$288,018**	**$288,018**

[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 2018 LEGISLATIVE SESSION
($'s in Thousands)[1]

	Fiscal Year 2018	Fiscal Year 2019	Current Biennium
Non-Dedicated Revenues			
Individual Income Tax	$11,451,400	$12,263,300	$23,714,700
Corporate Income Tax	1,301,100	1,295,375	2,596,475
Sales Tax	5,488,618	5,774,798	11,263,416
Statewide Property Tax	804,976	816,499	1,621,475
Estate Tax	199,700	129,300	329,000
Liquor, Wine & Beer Tax	90,750	93,180	183,930
Cigarette & Tobacco Products Tax	583,990	624,150	1,208,140
Taconite Ocupation Tax	10,500	11,100	21,600
Mortgage Registry Tax	119,340	114,992	234,332
Deed Transfer Tax	129,682	142,927	272,609
Insurance Gross Earn & Fire Marshall	394,263	402,972	797,235
Controlled Substance Tax	5	5	10
Other Gross Earnings	50	50	100
Lawful Gambling Taxes	71,200	76,800	148,000
Medical Assistance Surcharges	287,233	296,308	583,541
Other Tax Refunds	(5,305)	(5,405)	(10,710)
Investment Income	32,000	26,000	58,000
Lottery Revenue	64,562	64,694	129,256
Tobacco Settlements	157,260	150,604	307,864
Departmental Earnings	193,785	188,628	382,413
DHS MSOP Collections	14,800	14,800	29,600
DHS SOS Collections	69,500	71,632	141,132
Fines & Surcharges	74,254	72,923	147,177
All Other Non-Dedicated Revenue	152,032	127,753	279,785
Total Net Non-Dedicated Revenues	**$21,685,695**	**$22,753,385**	**$44,439,080**

[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 2018 Legislative Session estimates.

HISTORICAL AND PROJECTED REVENUE GROWTH
GENERAL FUND END OF 2018 LEGISLATIVE SESSION
($'s in Millions)(1)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Enacted FY 2018	Enacted FY 2019	Enacted FY 2020	Enacted FY 2021	Average Annual
Individual Income Tax	$ 9,660	$ 10,403	$ 10,739	$ 10,931	$ 11,451	$ 12,263	$ 12,796	$ 13,399	
$ change	647	744	335	192	520	812	533	603	
% change	**7.2%**	**7.7%**	**3.2%**	**1.8%**	**4.8%**	**7.1%**	**4.3%**	**4.7%**	**4.8%**
Sales Tax	$ 5,043	$ 5,131	$ 5,233	$ 5,405	$ 5,489	$ 5,775	$ 5,890	$ 6,137	
$ change	282	89	101	172	83	286	116	247	
% change	**5.9%**	**1.8%**	**2.0%**	**3.3%**	**1.5%**	**5.2%**	**2.0%**	**4.2%**	**2.8%**
Corporate Tax	$ 1,278	$ 1,455	$ 1,473	$ 1,205	$ 1,301	$ 1,295	$ 1,293	$ 1,316	
$ change	(3)	177	18	(268)	96	(6)	(2)	23	
% change	**-0.2%**	**13.9%**	**1.2%**	**-18.2%**	**7.9%**	**-0.4%**	**-0.2%**	**1.8%**	**0.4%**
Statewide Property Tax	$ 836	$ 838	$ 854	$ 858	$ 805	$ 816	$ 817	$ 817	
$ change	24	3	16	4	(53)	12	1	(0)	
% change	**3.0%**	**0.3%**	**1.9%**	**0.5%**	**-6.2%**	**1.4%**	**0.1%**	**0.0%**	**-0.3%**
Other Tax Revenue	$ 1,738	$ 1,758	$ 1,812	$ 1,833	$ 1,881	$ 1,886	$ 1,927	$ 1,968	
$ change	456	20	53	21	49	5	41	41	
% change	**35.6%**	**1.2%**	**3.0%**	**1.1%**	**2.7%**	**0.3%**	**2.2%**	**2.1%**	**1.8%**
Total Tax Revenue	$ 18,554	$ 19,587	$ 20,110	$ 20,233	$ 20,928	$ 22,036	$ 22,724	$ 23,636	
$ change	1,407	1,033	524	122	695	1,109	688	912	
% change	**8.2%**	**5.6%**	**2.7%**	**0.6%**	**3.4%**	**5.3%**	**3.1%**	**4.0%**	**3.5%**
Non-Tax Revenues	$ 721	$ 753	$ 779	$ 819	$ 758	$ 717	$ 706	$ 698	
$ change	(77)	31	27	40	(61)	(41)	(11)	(9)	
% change	**-9.7%**	**4.3%**	**3.5%**	**5.1%**	**-7.4%**	**-5.4%**	**-1.5%**	**-1.2%**	**-0.5%**
Transfers/All Other*	$ 247	$ 170	$ 262	$ 282	$ 181	$ 181	$ 181	$ 191	
$ change	(355)	(76)	91	20	(101)	(0)	(0)	11	
% change	**-59.0%**	**-31.0%**	**53.6%**	**7.8%**	**-35.8%**	**-0.2%**	**-0.1%**	**6.0%**	**-3.6%**
Total Resources	$ 19,522	$ 20,510	$ 21,151	$ 21,334	$ 21,867	$ 22,934	$ 23,611	$ 24,525	
$ change	975	988	642	182	533	1,067	677	915	
% change	**5.3%**	**5.1%**	**3.1%**	**0.9%**	**2.5%**	**4.9%**	**3.0%**	**3.9%**	**3.3%**

(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 2018 LEGISLATIVE SESSION
($'s in Millions)[1]

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Enacted FY 2018	Enacted FY 2019	Enacted FY 2020	Enacted FY 2021	Average Annual
K-12 Education	$ 8,430	$ 8,188	$ 8,507	$ 8,901	$ 9,275	$ 9,571	$ 9,724	$ 9,891	
$ change	(435)	(242)	319	394	374	296	152	167	
% change	**-4.9%**	**-2.9%**	**3.9%**	**4.6%**	**4.2%**	**3.2%**	**1.6%**	**1.7%**	**2.3%**
Higher Education	$ 1,381	$ 1,452	$ 1,529	$ 1,556	$ 1,654	$ 1,628	$ 1,628	$ 1,628	
$ change	86	71	77	27	98	(26)	(0)	-	
% change	**6.7%**	**5.1%**	**5.3%**	**1.7%**	**6.3%**	**-1.5%**	**0.0%**	**0.0%**	**2.4%**
Prop. Tax Aids & Credits	$ 1,321	$ 1,613	$ 1,646	$ 1,675	$ 1,734	$ 1,922	$ 1,792	$ 1,861	
$ change	0	292	33	29	59	188	(130)	69	
% change	**0.0%**	**22.1%**	**2.1%**	**1.8%**	**3.5%**	**10.8%**	**-6.8%**	**3.9%**	**5.0%**
Health & Human Services	$ 5,430	$ 6,191	$ 5,601	$ 5,944	$ 6,697	$ 6,922	$ 7,680	$ 7,742	
$ change	222	761	(590)	343	753	225	758	62	
% change	**4.3%**	**14.0%**	**-9.5%**	**6.1%**	**12.7%**	**3.4%**	**10.9%**	**0.8%**	**5.2%**
Public Safety	$ 944	$ 1,035	$ 1,041	$ 1,133	$ 1,169	$ 1,171	$ 1,187	$ 1,192	
$ change	(14)	91	6	92	36	2	16	5	
% change	**-1.5%**	**9.6%**	**0.6%**	**8.9%**	**3.1%**	**0.1%**	**1.4%**	**0.4%**	**3.4%**
Debt Service	$ 620	$ 624	$ 609	$ 529	$ 563	$ 575	$ 573	$ 608	
$ change	397	4	(14)	(80)	34	12	(2)	35	
% change	**178.0%**	**0.6%**	**-2.3%**	**-13.1%**	**6.4%**	**2.2%**	**-0.4%**	**6.1%**	**-0.3%**
All Other	$ 1,223	$ 1,190	$ 1,218	$ 1,300	$ 1,604	$ 1,370	$ 1,209	$ 1,228	
$ change	352	(33)	28	82	303	(233)	(161)	19	
% change	**40.4%**	**-2.7%**	**2.4%**	**6.8%**	**23.3%**	**-14.6%**	**-11.7%**	**1.6%**	**0.1%**
Total Spending	$ 19,349	$ 20,293	$ 20,152	$ 21,039	$ 22,695	$ 23,160	$ 23,793	$ 24,150	
$ change	609	944	(141)	887	1,656	465	633	357	
% change	**3.2%**	**4.9%**	**-0.7%**	**4.4%**	**7.9%**	**2.0%**	**2.7%**	**1.5%**	**3.2%**

[1]Totals may not foot due to rounding.

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BUDGET PLANNING ESTIMATES

Next Biennium

Planning estimates for the Next Biennium are based on the February 2018 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.

The actions taken during the 2018 Legislative Session that adjusted the budget for the Current Biennium impacted the projections and estimates for the Next Biennium. General Fund revenues are now estimated to be $48.136 billion, $3.335 billion (7.4 percent) higher than estimates for the Current Biennium. Expected growth in the two largest General Fund revenue sources account for $3.244 billion of the growth. Receipts for individual income taxes and sales tax are expected to grow 10.5 percent and 6.8 percent, respectively.

Projected spending in the Next Biennium is now estimated to be $47.943 billion, $2.087 billion (4.6 percent) higher than estimates for the Current Biennium. Expected growth in the two largest areas of the budget more than accounts for the overall growth. E-12 education and health and human services are expected to grow 4.1 percent, and 13.2 percent, respectively. Partially offsetting the growth is lower projected spending in general state government, environment, agriculture, transportation and economic development programs due to one-time spending commitments in 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 budget planning estimate for the Next Biennium is structurally balanced; projected revenues are expected to exceed estimated spending by $193 million. The impact of inflation is not reflected in expenditure projections. Based on the February 2018 Forecast the consumer price index is projected to increase by 2.1 percent in FY 2020 and 2.8 percent in FY 2021. Annual expenditure inflation pressures, if recognized, would add approximately $1.229 billion to spending estimates for the Next Biennium.

General Fund reserve estimates in the Next Biennium include $1.583 billion in the Budget Reserve Account, and a $350 million balance in the Cash Flow Account, both unchanged from the Current Biennium. The balance in the Stadium Reserve Account is projected to be $120 million.

Revenue, spending and reserve estimates for the Next Biennium will be updated in the November 2018 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.

The starting point for calculating Minnesota income taxes is federal taxable income. Minnesota statutes are not in conformity with 2017 federal law changes. The current state revenue forecast assumes no conformity to the federal law changes.

The Department of Revenue has begun the process to update the state tax filing systems for taxpayer use in 2019. This process happens annually, starting after the end of the legislative session in May. The Department of Revenue is updating the tax filing systems to accommodate the differences between the federal and Minnesota tax laws.

Income Tax: The income tax rate schedules for 2018 consist of four income brackets having tax rates of 5.35 percent, 7.05 percent, 7.85 percent and 9.85 percent as shown below. The tax brackets are indexed annually for inflation, as measured by the national consumer price index. The base of the tax is federal taxable income, per the Internal Revenue Code of 1986, as amended, through December 16, 2016; with selected additions and subtractions. There is a subtraction for social security benefits included in Adjusted Gross Income for a married couple the maximum subtraction is $4,500, for single and head of household filers the maximum is $3,500. These maximums are indexed for inflation; the subtraction phases out for higher income taxpayers. There is an income exclusion for low-income elderly and disabled taxpayers. The exclusion phases out as adjusted gross income and nontaxable sources of income rise. 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 $1,462.00. 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. 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 $25,890	5.35%
on all over $25,890 but not over $85,060	7.05%
on all over $85,060 but not over $160,020	7.85%
on all over $160,020	9.85%

MARRIED FILING JOINTLY

Taxable Income	Tax
on the first $37,850	5.35%
on all over $37,850, but not over $150,380	7.05%
on all over $150,380, but not over $266,700	7.85%
on all over $266,700	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.

HEAD OF HOUSEHOLD

Taxable Income	Tax
on the first $31,880	5.35%
on all over $31,880, but not over $128,090	7.05%
on all over $128,090, but not over $213,360	7.85%
on all over $213,360	9.85%

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 percent 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. In the 2017 Legislative Sessions the sales tax on rental cars and motor vehicle leases and a portion of the sales tax revenue generated on auto parts sales was redirected from the General Fund to the Highway User Tax Distribution Fund. See "TRUNK HIGHWAY SYSTEM" section of this APPENDIX B for additional information.

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. 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 tax is levied at a uniform rate across the State. In 2017, the levy amount was set at $828.78 million, effective for taxes payable in 2018 and thereafter. Previously to that, the levy amount was adjusted annually for the increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for State and local governments prepared by the U.S. Bureau of Economic Analysis.

Corporate Franchise Tax: A flat tax rate of 9.8 percent is imposed on corporate taxable income. Beginning in 2014, corporations apportion their income to Minnesota solely on the basis of sales in Minnesota. Prior to 2014 a three factor formula of property, payroll and sales had been used. That formula was phased out between 2007 and 2014. 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. In the 2013 Legislative Session numerous changes were made to the corporate income tax. Among the significant provisions were: 1) the repeal of special rules for foreign operating corporations, 2) the repeal of the exclusion for foreign royalties, 3) An increase in the minimum fee, 4) a broadened definition of sales to include the sales of no- nexus subsidiaries of corporations subject to Minnesota tax, 5) a change in the Research & Development credit from refundable to non-refundable, and 6) a provision that subjects the income of foreign entities who elect not to be treated as corporations, that are part of a unitary business taxable in Minnesota, and whose income is included in federal taxable to Minnesota 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".

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 fee schedule for tax year 2018 is shown below:

Fee Basis	Amount of Fee
Less than $990,000	$0
$990,000 to $1,989,999	$200
$1,990,000 to $9,965,999	$600
$9,960,000 to $19,929,999	$1,990
$19,930,000 to $39,859,999	$3,990
$39,860,000 or more	$9,960

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

Motor Vehicle Sales Tax: Motor vehicle sales, new and used, are exempt from the sales and use tax, but are subject to a 6.5 percent motor vehicle sales tax. The tax is collected at the time of title registration or transfer. Beginning in Fiscal Year 2012, 100 percent of the collections are dedicated to transportation related funds.

Liquor, Wine and Fermented Malt Beverages Tax: Liquor is taxed at $5.03 per gallon. Wine is taxed at rates that vary from $.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 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 55 cents. 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, some containing nicotine) 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 12% to 16% for decedents dying in 2017 and 13% to 16% for decedents dying in 2018 and thereafter. There is a general state subtraction or exclusion amount equal to $2.1 million for 2017 deaths that rises 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 .0033 percent per $500 or $1.65 for increments less than $500 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 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 passed in 2012 substantially changed the State's gambling tax structure. The Stadium Legislation imposes a new tax on net gambling receipts -- gross receipts less prizes paid (see table below). The Stadium Legislation authorizes two new 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), and a 0.6 percent tax on the total premium revenue of health maintenance organizations.

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 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")[2], 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.

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

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[2] 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.

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, which historical payments are set forth in the table that follows, 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 2018 and certain other amounts pursuant to the Minnesota Agreement totaling approximately $4.497 billion to date.

	Unadjusted Minnesota Agreement Applicable Base Payment	**State's Actual Receipts[(1)]**
Up-Front Initial Payment†	$240,000,000	$240,000,000
1999 Initial Payment†	220,800,000	220,800,000
2000 Initial Payment	242,550,000	221,784,750
2001 Initial Payment	242,550,000	220,885,523
2002 Initial Payment	242,550,000	215,007,990
2003 Initial Payment	121,550,000	107,669,822
FY1999 Annual Payment†	102,000,000	102,000,000
FY2000 Annual Payment	114,750,000	104,925,995
FY2001 Annual Payment	127,500,000	145,136,835[(2)]
FY2002 Annual Payment	165,750,000	161,022,719
FY2003 Annual Payment	165,750,000	157,711,642
FY2004 Annual Payment	204,000,000	168,566,764
FY2005 Annual Payment	204,000,000	175,488,332
FY2006 Annual Payment	204,000,000	180,789,740
FY2007 Annual Payment	204,000,000	183,911,438
FY2008 Annual Payment	204,000,000	184,410,711
FY2009 Annual Payment	204,000,000	179,854,486
FY2010 Annual Payment	204,000,000	168,297,369
FY2011 Annual Payment	204,000,000	169,375,081
FY2012 Annual Payment	204,000,000	166,861,093
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

† Not subject to the Inflation Adjustment or the Volume Adjustment. Deposited in a cessation account administered by the Court, as permitted in the Minnesota Agreement and required by the Consent Judgment, to provide cessation opportunities to Minnesota smokers.

(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 $29,025,087 paid by the Settling Defendants on June 11, 2001 pursuant to the 2001 Amendment.

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 2018 and FY 2019 based on the February 2018 Forecast and End of 2018 Legislative Session budget estimates. The table for FY 2018 represents actual Statutory General Fund cash flow balances through June 30, 2018. The table for FY 2019 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. Projected Statutory General Fund cash flow for FY 2019 indicates that the State will be able to maintain positive cash balances for the Current Biennium without special administrative actions or access to external borrowing.

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2018 LEGISLATIVE SESSION
ACTUALS FOR FISCAL YEAR ENDED JUNE 30, 2018
($'s in Thousands)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	FY18 Total
	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act
Beginning Cash Balance	6,713,659	5,532,844	4,421,845	4,294,537	4,571,946	5,020,301	5,189,230	6,419,268	5,830,975	6,231,017	6,444,007	6,445,072	
Individual Income Tax	798,182	799,724	1,089,794	780,200	748,911	1,192,123	1,708,225	420,085	697,786	1,718,933	695,394	1,115,806	11,765,163
Corporate Tax	(77,278)	25,571	282,565	69,704	17,448	243,476	49,963	20,998	209,447	151,971	39,863	290,450	1,324,177
Sales Tax	143,758	492,403	324,440	696,814	457,142	452,835	543,337	424,864	378,086	438,731	415,418	779,645	5,547,474
Property Tax	14,703	(3,810)	0	178,768	165,380	21,013	5,544	3,290	0	1	218,773	214,102	817,763
Tobacco Tax	2,466	56,208	45,520	52,126	62,799	48,172	113,454	33,720	30,566	42,141	38,957	77,961	604,091
Insurance Tax	1,708	10,870	101,141	435	5,406	109,555	2,330	23,330	133,657	757	3,264	108,652	501,106
Excise Tax	159,672	116,154	86,593	186,913	102,655	133,860	206,120	118,659	114,772	175,946	153,573	138,539	1,693,457
Investment Earnings	5,968	7,440	5,763	5,429	5,916	6,529	6,432	8,287	7,496	10,142	10,039	10,753	90,193
Interagency Grants	10,783	16,612	6,569	12,674	8,903	27,219	10,350	10,921	19,442	18,079	13,890	13,987	169,431
Other Revenue	309,984	423,237	389,339	352,355	259,158	432,171	591,178	275,025	1,133,576	369,868	293,404	385,882	5,215,177
Total Revenue	1,369,947	1,944,410	2,331,725	2,335,418	1,833,719	2,666,953	3,236,933	1,339,179	2,724,827	2,926,569	1,882,574	3,135,778	27,728,033
Transfer In	1,794,915	433,595	264,399	101,739	192,654	475,099	96,400	118,880	117,101	99,811	86,305	367,222	4,148,120
Total Sources	3,164,862	2,378,005	2,596,124	2,437,156	2,026,373	3,142,053	3,333,334	1,458,059	2,841,929	3,026,380	1,968,879	3,503,000	31,876,153
Compensation	298,798	289,757	417,115	297,652	299,054	298,146	291,376	302,525	433,580	310,373	335,072	305,556	3,879,004
Agency Operations	214,251	255,957	181,961	272,343	97,973	180,400	286,988	115,481	211,576	252,683	142,020	284,045	2,495,679
Aid to Schools	209,592	1,349,336	881,193	525,261	230,717	725,255	879,632	874,533	1,043,183	1,056,515	855,854	467,001	9,098,074
Aid to Cities & Towns	286,909	16,517	93,609	16,320	13,305	288,865	7,443	9,977	7,001	2,101	5,105	4,609	751,761
Aid to Counties	174,893	22,940	32,265	29,208	24,703	160,833	15,106	22,188	13,066	11,327	24,935	10,975	542,440
Aid to Higher Ed	86,512	177,062	54,368	75,792	81,688	78,072	147,529	67,345	63,898	108,146	80,603	63,413	1,084,430
Aid to Non-Gov't	34,639	41,688	21,400	27,669	20,743	28,185	26,240	29,984	20,044	45,325	33,243	18,383	347,542
Aid to Other Gov't	21,882	22,628	30,610	16,810	12,089	14,536	13,928	6,974	11,856	11,512	11,701	10,796	185,322
DHS Payments to Individuals	992,828	524,963	452,642	723,800	511,014	474,946	278,793	481,654	498,667	758,257	335,683	302,522	6,335,769
Other Aid to Individuals	54,855	134,081	362,697	49,600	28,494	20,031	5,933	6,621	9,691	10,102	3,646	8,637	694,387
Other Expenditures	64,253	28,477	30,495	21,485	19,365	27,012	20,809	27,977	20,906	132,077	8,530	18,024	419,410
Total Expenditures	2,439,412	2,863,406	2,558,355	2,055,940	1,339,145	2,296,282	1,973,777	1,945,261	2,333,469	2,698,418	1,836,393	1,493,962	25,833,818
Transfer Out	1,906,265	625,597	165,079	103,805	238,873	113,720	129,518	101,091	108,418	114,973	131,422	367,347	4,106,109
Transfer Out Debt Service	0	0	0	0	0	563,123	0	0	0	0	0	0	563,123
Total Uses	4,345,677	3,489,004	2,723,433	2,159,746	1,578,018	2,973,124	2,103,295	2,046,351	2,441,887	2,813,391	1,967,815	1,861,309	30,503,050
Sources Less Uses	(1,180,815)	(1,110,999)	(127,309)	277,410	448,355	168,928	1,230,039	(588,292)	400,042	212,990	1,064	1,641,691	1,373,104
High Point	6,745,367	5,592,564	5,039,575	5,212,344	5,390,041	5,189,229	6,448,942	6,215,482	6,532,659	7,104,814	6,580,099	8,086,762	
Low Point	5,315,156	4,421,845	4,258,046	4,082,124	4,761,693	4,060,690	4,941,973	5,300,365	5,119,167	5,406,492	5,776,087	6,312,507	
Ending Cash Balance	5,532,844	4,421,845	4,294,537	4,571,946	5,020,301	5,189,230	6,419,268	5,830,975	6,231,017	6,444,007	6,445,072	8,086,763	

STATUTORY GENERAL FUND MONTHLY CASH FLOW ANALYSIS
END OF 2018 LEGISLATIVE SESSION
ESTIMATES FOR FISCAL YEAR ENDING JUNE 30, 2019
($'s in Thousands)

	Jul-18	**Aug-18**	**Sep-18**	**Oct-18**	**Nov-18**	**Dec-18**	**Jan-19**	**Feb-19**	**Mar-19**	**Apr-19**	**May-19**	**Jun-19**	**FY19 Total**
	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	
Beginning Cash Balance	8,086,763	6,902,258	5,744,434	5,770,190	5,781,215	5,572,686	5,791,970	6,611,874	5,847,818	5,346,693	6,084,578	7,042,121	
Individual Income Tax	768,390	805,777	1,111,591	813,558	780,877	1,119,744	1,551,458	517,732	714,159	1,979,476	864,244	1,236,265	12,263,271
Corporate Tax	50,896	31,515	274,087	47,780	17,678	235,469	35,515	12,263	263,214	102,369	49,246	175,343	1,295,375
Sales Tax	214,140	550,486	526,932	526,521	484,513	476,696	557,310	426,805	395,100	468,079	457,370	722,917	5,806,869
Property Tax	16,312	0	0	171,277	171,277	20,390	4,078	0	0	0	220,669	212,496	816,499
Tobacco Tax	2,502	63,202	54,626	56,235	52,624	64,819	83,233	38,863	39,267	45,552	53,874	95,540	650,337
Insurance Tax	2,208	7,713	108,207	672	4,050	116,906	1,399	27,560	119,116	912	4,203	105,184	498,130
Excise Tax	142,545	124,873	80,248	193,285	98,682	103,364	197,467	117,812	106,509	205,436	110,177	172,621	1,653,019
Investment Earnings	2,705	3,960	2,181	4,002	3,079	3,144	3,301	2,175	3,435	5,153	3,683	2,169	38,987
Interagency Grants	5,776	3,018	1,383	1,814	3,005	4,458	2,302	2,428	25,079	5,606	1,464	3,787	60,120
Other Revenue	346,200	406,538	377,107	275,663	251,312	453,575	622,752	207,634	239,187	418,710	277,153	295,628	4,171,459
Total Revenue	1,551,674	1,997,082	2,536,362	2,090,807	1,867,097	2,598,565	3,058,815	1,353,272	1,905,066	3,231,293	2,042,083	3,021,950	27,254,066
Transfer In	1,704,052	346,531	95,294	96,880	104,702	152,067	17,116	94,747	75,170	79,397	82,237	193,952	3,042,145
Total Sources	3,255,726	2,343,613	2,631,656	2,187,687	1,971,799	2,750,632	3,075,931	1,448,019	1,980,236	3,310,690	2,124,320	3,215,902	30,296,211
Compensation	311,450	448,071	305,475	287,535	308,910	326,338	381,350	318,976	405,724	309,128	318,481	318,311	4,039,749
Agency Operations	322,488	254,733	200,830	227,744	176,532	135,768	252,794	171,986	159,318	244,027	138,780	191,765	2,476,765
Aid to Schools	277,886	1,391,846	918,354	537,354	234,674	786,334	922,302	913,038	1,133,001	1,101,440	912,541	446,554	9,575,324
Aid to Cities & Towns	301,765	15,410	90,469	16,012	20,214	300,194	18,324	4,761	12,224	7,763	12,311	86,819	886,266
Aid to Counties	186,707	30,493	33,029	49,036	22,690	180,138	16,437	14,475	9,965	23,648	16,146	15,053	597,817
Aid to Higher Ed	85,628	159,665	61,096	67,101	74,458	84,880	139,437	68,635	68,659	87,580	65,835	68,809	1,031,783
Aid to Non-Gov't	17,084	17,619	16,373	15,655	15,972	12,320	17,715	17,011	21,057	56,097	20,040	13,908	240,851
Aid to Other Gov't	24,857	16,145	30,682	16,753	12,052	13,913	17,348	14,230	9,904	11,815	14,365	4,380	186,444
DHS Payments to Individuals	953,546	506,465	506,502	739,458	538,746	502,916	304,717	528,263	518,337	600,992	(554,740)	261,616	5,406,818
Other Aid to Individuals	203,620	249,679	284,334	102,511	33,557	21,606	13,081	37,327	37,434	18,650	89,436	62,031	1,153,266
Other Expenditures	31,184	36,997	26,363	23,056	12,759	19,313	25,079	18,506	20,798	20,810	21,486	15,810	272,161
Total Expenditures	2,716,215	3,127,123	2,473,507	2,082,215	1,450,564	2,383,720	2,108,584	2,107,208	2,396,421	2,481,950	1,054,681	1,485,056	25,867,244
Transfer Out	1,724,016	374,314	132,393	94,447	154,756	147,628	147,443	104,867	84,940	90,855	112,096	290,696	3,458,451
Transfer Out Debt Service	0	0	0	0	575,008	0	0	0	0	0	0	0	575,008
Total Uses	4,440,231	3,501,437	2,605,900	2,176,662	2,180,328	2,531,348	2,256,027	2,212,075	2,481,361	2,572,805	1,166,777	1,775,752	29,900,703
Sources Less Uses	(1,184,505)	(1,157,824)	25,756	11,025	(208,529)	219,284	819,904	(764,056)	(501,125)	737,885	957,543	1,440,150	395,508
High Point	7,876,941	6,772,857	6,305,657	6,095,837	6,304,657	5,915,706	6,776,153	6,313,768	5,949,749	6,831,915	7,155,019	8,447,098	
Low Point	6,593,096	5,516,280	5,464,914	5,245,846	5,344,533	5,321,201	5,670,281	5,619,667	5,090,203	4,961,145	5,652,610	6,792,507	
Ending Cash Balance	6,902,258	5,744,434	5,770,190	5,781,215	5,572,686	5,791,970	6,611,874	5,847,818	5,346,693	6,084,578	7,042,121	8,482,271	

TRUNK HIGHWAY SYSTEM

The State trunk highway system consists of approximately 12,000 miles of highways, 4,500 bridges of ten-foot spans or longer, and 1,075 maintenance, enforcement, service, and administrative buildings at 334 sites. Minnesota has 916 miles of interstate highways, all of which are part of the State trunk highway system. Total highway mileage, including roads and streets under local jurisdiction, is almost 143,000 miles.

The State trunk highway system is constructed and maintained by the Minnesota Department of Transportation ("MnDOT"). Construction work is contracted to private construction contractors on a competitive basis, while maintenance is performed by MnDOT employees. Maintenance includes routine patching; short overlays; snow and ice control; and traffic services such as signing, paint striping, etc.

Trunk Highway Fund

The Minnesota Constitution, Article XIV, establishes a Trunk Highway Fund (the "Trunk Highway Fund") to be used solely for trunk highway system purposes and for payment of principal and interest on trunk highway bonds. Article XIV provides that the payment of principal of and interest on State trunk highway bonds is "a first charge on money coming into [the State Trunk Highway Fund] during the year in which the principal or interest is payable." Article XIV also establishes a Highway User Tax Distribution Fund to be used solely for highway purposes, authorizes the Legislature to impose taxes on motor vehicles and motor vehicle fuels, and requires the proceeds of such taxes to be paid into the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95 percent of the revenues deposited into the Highway User Tax Distribution Fund be distributed from such fund as follows: 62 percent to the Trunk Highway Fund, 29 percent to the County State Aid Highway Fund, and 9 percent to the Municipal State Aid Street Fund. The remaining 5 percent of Highway User Tax Distribution Fund revenues are distributed to the same three funds in accordance with a formula that the Legislature establishes. Currently these remaining revenues are all distributed to the County State Aid Highway Fund. According to the Minnesota Constitution, no change in the distribution formula may be made within six years of the last previous change. The current distribution formula was established in the 1998 Legislative Session. During the 2017 Legislative Sessions there were changes made to the formulas prescribing how the amounts deposited to the County State Aid Highway Fund are distributed to individual counties.

In 2017, the Legislature statutorily dedicated several transportation related revenues, deposited in the General Fund under current law, to the Highway User Tax Distribution Fund. The General Fund transfers consist of a fixed portion of the sales tax on auto parts, the motor vehicle rental tax of 9.2 percent, the motor vehicle rental sales tax of 6.5 percent, and 11 percent of the motor vehicle lease sales tax ("MVLST"). In Fiscal Year 2018, these revenues are estimated to generate $87.8 million in the Highway User Tax Distribution Fund, with a corresponding transfer of $51.7 million to the Trunk Highway Fund. In Fiscal Year 2019, these revenues are estimated to generate $90.4 million in the Highway User Tax Distribution Fund, with a corresponding transfer of $53.2 million to the Trunk Highway Fund. Due to statutory increases in the fixed portion of the sales tax on auto parts, these new revenues increase to $207.0 million in FY 2020 in the Highway User Tax Distribution Fund (corresponding $121.9 million transfer to Trunk Highway Fund), and $209.5 million in FY 2021 in the Highway User Tax Distribution Fund (corresponding $123.4 million transfer to Trunk Highway Fund).

In addition to distributions from the Highway User Tax Distribution Fund, the Trunk Highway Fund receives revenue from deposits of federal aid reimbursements, investment income, and miscellaneous fees and reimbursements. A Minnesota motor fuel tax is collected on all fuel used to propel vehicles on the public roads of the State and includes gasoline, diesel fuel, and other special fuels. In 2008 the Legislature approved $1.8 billion in Trunk Highway bonds to be appropriated initially over a 10 year period, subsequently reduced to eight years in Laws of 2010, Chapter 190. The debt service on these bonds is to be paid from motor fuel tax increases which were phased in over several years. The final tax rate increase of a half cent was implemented on July 1, 2012, (for a total rate of 28.5 cents per gallon of which 3.5 cents is to be used for debt service) and is expected to be in place through at least Fiscal Year 2040, the anticipated duration of debt service on the Trunk Highway bonds. The following table shows the motor fuel tax rate changes passed by the 2008 Legislature:

2008 LEGISLATIVE SESSION MOTOR FUEL TAX RATE CHANGES
Base Rate: Twenty Cents/Gallon

Fiscal Year	Effective Date	Increase (Cents/Gallon)	New Effective Rate (Cents/Gallon)
2008	Apr-08	2.0	22.0
2009	Aug-08	0.5	22.5
2009	Oct-08	3.0	25.5
2010	Jul-09	1.6	27.1
2011	Jul-10	0.4	27.5
2012	Jul-11	0.5	28.0
2013	Jul-12	0.5	28.5

For some special fuels the rate is different than gasoline and diesel and is based on the equivalent energy content of the fuel compared to gasoline.

Revenue from motor fuels taxes was $911 million to the Highway User Tax Distribution Fund in Fiscal Year 2017, after refunds. Of this amount, $522 million was transferred to the Trunk Highway Fund. MnDOT's current forecast estimates collections of $922 million, after refunds, in Fiscal Year 2018 to the Highway User Tax Distribution Fund, with a resulting transfer of $528 million to the Trunk Highway Fund.

Motor vehicle registration taxes consist of taxes on passenger vehicles and on trucks. For passenger vehicles the tax is $10 plus 1.25 percent times a declining percentage of the original value of the vehicle based upon registration year. For vehicles newly registered in 2009 or later, the new statutory schedule is automatically applied, which contains no tax caps. For vehicles previously registered before 2009, the new tax schedule is only applied if the amount calculated is less than the vehicle registration amount paid in the previous year; otherwise the registration amount is equal to the previous year's registration tax. The minimum tax is $35. Motor vehicle registration taxes for trucks are based on the weight and age of the vehicles, with the maximum tax being $1,760 for trucks registered at 80,000 pounds that are less than nine years old. Trucks registered at a weight greater than 80,000 pounds pay an additional $50 per ton of registered weight. Motor vehicle registration taxes generated $753 million in Fiscal Year 2017, after refunds, of which $444 million was transferred to the Trunk Highway Fund. MnDOT estimates collections to be $785 million in Fiscal Year 2018 to the Highway User Tax Distribution Fund, with a resulting transfer of $456 million to the Trunk Highway Fund.

The State levies a sales tax of 6.5 percent on motor vehicles ("MVST"). In November 2006, voters approved a constitutional amendment phasing in dedication of all MVST for transportation purposes over five years, starting July 1, 2007 (FY 2008). The 2009 Legislature modified the percent of motor vehicle sales tax distribution for the FY 2014-2015 Biennium. The following table shows percent and forecast amount, if available, to each of the recipient funds for this revenue source.

MOTOR VEHICLE SALES TAX DEDICATION
END OF 2018 LEGISLATIVE SESSION
($'s in Millions)

	Highway User Tax Distribution Fund		General Fund		Transit Assistance Fund	
Year	Percent	Forecasted Amount	Percent	Forecasted Amount	Percent	Forecasted Amount
2008	38.25%	$196.1*	36.25%	$176.5*	25.50%	$130.7*
2009	44.25%	195.5*	26.25%	116.8*	29.50%	130.3*
2010	47.50%	216.7*	16.25%	74.1*	36.25%	162.8*
2011	54.50%	276.1*	6.25%	31.6*	39.25%	197.4*
2012	60.00%	335.4*	0.00%	0	40.00%	223.6*
2013	60.00%	358.7*	0.00%	0	40.00%	239.1*
2014	60.00%	384.2*	0.00%	0	40.00%	256.1*
2015	60.00%	416.6*	0.00%	0	40.00%	277.7*
2016	60.00%	428.8*	0.00%	0	40.00%	285.7*
2017	60.00%	452.6*	0.00%	0	40.00%	301.7*
2018	60.00%	464.2	0.00%	0	40.00%	309.5

*Actual

Activity in the Trunk Highway Fund for the Current Biennium is detailed below:

CURRENT BIENNIUM
END OF 2018 LEGISLATIVE SESSION
ESTIMATED REVENUES AND EXPENDITURES
TRUNK HIGHWAY FUND
($'s In Thousands)

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2019	Current Biennium
Estimated Resources			
Balance Forward from Prior Year	$376,507	$136,772	$376,507
Revenues			
Federal Grants	507,600	558,175	1,065,775
Departmental Earnings	12,000	12,000	24,000
Investment Income	10,612	17,518	28,130
Other Income	30,000	30,000	60,000
Total Revenues	$560,212	$617,693	$1,177,905
Transfers from Other Funds			
General Fund Reimbursement	3,658	3,658	7,316
Hwy Users Tax Distribution Fund	1,311,473	1,336,836	2,648,309
Plant Management Fund	1,304	1,304	2,608
Total Transfers	1,316,435	1,341,798	2,658,233
Total Resources Available	$2,253,153	$2,096,264	$4,212,644
Estimated Uses			
Expenditures			
Transportation			
MnDOT	$1,797,549	$1,633,291	$3,430,840
Public Safety	107,822	113,022	220,844
Subtotal-Transportation	1,905,371	1,746,313	3,651,684
Total Expenditures	$1,905,371	$1,746,313	$3,651,684
Transfers to Other Funds			
Debt Service Fund	211,009	216,279	427,288
Total Transfers	211,009	216,279	427,288
Total Uses	$2,116,380	$1,962,592	$4,078,972
Undesignated Fund Balance	$136,773	$133,672	$133,672

The estimated expenditures for State road construction for the Current Biennium include the use of State funds to advance the federal portion of certain projects under a method generally known as "advance construction."

Federal advance construction is a financing method authorized by the Federal Highway Administration. It allows a state to encumber the necessary funds to begin construction of federal-aid projects before the authorized federal funds are available for those projects. Advance construction uses State trunk highway funds to "advance" federal project construction costs on projects for which federal funds have been authorized but not yet appropriated for the current fiscal year. The Trunk Highway Fund advances are later repaid during the year in which the funds are appropriated by Congress. The receivable for the advance is recognized in the year the project is encumbered. The appropriated amount of federal aid for a State fiscal year is then reduced by all advance construction conversions in that State fiscal year and increased by all new advance construction in that year.

Beginning in Fiscal Year 2005, transportation projects financed with bond proceeds were segregated into a capital projects fund. This fund accounts for bond proceeds, construction expenditures and program delivery paid with bond proceeds only. The State typically encumbers, and consequently reserves fund balance, for the full contract amount of transportation projects when awarded. However, bond revenues supporting these projects are not recorded until the bonds are sold. Because of the timing of receipts of bond proceeds and related capital expenditures, there may be temporary deficits in unreserved fund balance.

Capital Needs of the Trunk Highway System

The State manages the capital maintenance and upgrading of the trunk highway system, in partnership with the Federal Highway Administration. It uses a planning process that includes a statewide transportation plan, updated every five years (Minnesota 20-Year State Highway Investment Plan, or "MnSHIP", most recently completed in 2017), and a statewide Transportation Improvement Program ("STIP"), which details all highway construction and maintenance projects that are capital in nature. Projects included in the STIP range from major construction, involving building new highways or rebuilding highways that add additional traffic capacity, to less substantive improvements such as resurfacing existing highways.

See APPENDIX D for a list of bond authorizations to be included in the Series 2018B Bonds.

The following table shows the most recent legislative bond authorizations for trunk highway improvements. See APPENDIX C, the table of "GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED"

Legislature	Authorizations ($ in Millions)	Purpose
2007	$ 20.0	Highway Flood Damage
2008	1,783.3	Trunk Highway Improvements
2009	40.0	Trunk Highway Interchanges
2009	2.7	Reconstruction and Repair of Trunk Highways and Bridges in Flood Areas
2010	100.1	Trunk Highway Construction and Interchanges
2010	26.4	Trunk Highway Capital Improvements
2012	16.1	Trunk Highway Capital Improvements
2012	35.0	Highway Flood Damage
2013	300.0	Corridors of Commerce
2015	140.0	Trunk Highway Capital Improvements
2017	940.0	Corridors of Commerce & Trunk Highway Capital Improvements
2018	416.2	Corridors of Commerce & Trunk Highway Capital Improvements
Total:	$ 3,819.8	

The table below depicts the commitments for highway construction and related purposes associated with the appropriations made by the Legislature for the Current Biennium. The last item in the table, "Program Delivery," is included to show the anticipated use of bond funds in the Current Biennium for that purpose. Program delivery expenditures will also be made from other portions of MnDOT's budget.

CURRENT BIENNIUM
END OF 2018 LEGISLATIVE SESSION
TRUNK HIGHWAY IMPROVEMENT PROGRAM
ANTICIPATED ENCUMBRANCES
($'s in Millions)

Improvement Category	Trunk Highway and Federal Funds	Bond Funds	Total
Major Construction [1]	$1,219.2	$246.7	$1,465.9
Safety	101.0	-	101.0
Traffic Management	15.2	-	15.2
Municipal Agreements	40.7	-	40.7
Right of Way	50.1	-	50.1
Miscellaneous Agreements	350.9	-	350.9
Program Delivery	150.0	24.7	174.7
Total [2]	$1,927.1	$271.3	$2,198.4

[1] The Major Construction Category includes the following activities: Reconstruction, Bridge Replacement, Bridge Repairs, Reconditioning, Resurfacing, and Road Repair.

[2] The total encumbrances, excluding the amount provided by bond funds, reflects forecast amounts of $895.7 million of State highway revenues and $1,031.4 million of federal funds. Totals may not foot due to rounding.

CURRENT BIENNIUM
TRUNK HIGHWAY AND TRUNK HIGHWAY BOND FUND
CASH EXPENDITURES FORECAST
($'s in Millions)

Category	Trunk Highway Fund	Trunk Highway Bond Fund	Total
Major Construction[1]	$1,351.6	$313.1	$1,664.7
Safety	57.3	-	57.3
Traffic Management	-	-	-
Agreements and Miscellaneous	142.4	-	142.4
Right of Way	42.7	-	42.7
Program Delivery	26.5	31.3	57.8
Total	$1,620.6	$344.4	$1,965.0

[1] The Major Construction Category includes the following activities: Reconstruction, Bridge Replacement, Bridge Repairs, Reconditioning, Resurfacing, and Road Repair.

TRUNK HIGHWAY HISTORIC REVENUES AND EXPENDITURES

The following table sets forth the Trunk Highway Fund revenues and expenditures for the Fiscal Years ending June 30, 2015 through 2017. 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. Beginning balances or deficits are not included. The actual expenditures set forth in the table on the following page are presented by expenditure account.

TRUNK HIGHWAY FUND
COMPARATIVE STATEMENT OF REVENUES, AND EXPENDITURES
($'s in Thousands)
UNAUDITED

	Fiscal Year Ended June 30 [1] 2015	2016	2017
Revenues:			
Taxes:[2]			
Motor Fuel	$517,130	$524,340	$530,768
Motor Vehicle	419,236	419,699	462,323
Motor Vehicle Sales Tax	248,719	267,254	267,062
Less: Revenue Refunds	(27,055)	(28,871)	(27,395)
Net Taxes	$1,158,029	$1,182,423	$1,232,758
Federal Grant Agreements	498,560	426,391	587,537
Penalties & Fines	4,390	5,154	5,333
Investment Income	4,157	4,558	7,259
Local Government Contracts	26,418	16,578	18,805
Other Revenue	25,854	16,956	25,112
TH Revenue Refunds	8	4	42
Total Revenues	$1,717,417	$1,652,065	$1,876,847
Expenditures:			
Personnel Services	$453,502	$461,759	$467,110
Purchased Services	150,691	153,676	206,128
Materials and Supplies	96,700	76,009	96,161
Capital Outlay:			
Equipment	53,939	26,516	76,749
Capital Outlay & Real Property[3]	978,639	657,184	856,484
Grants and Subsidies:			
Individuals	29	8	29
Counties	299	202	72
Cities	34	44	44
Other Grants	963	857	900
All Other	22,645	24,660	31,584
Total Expenditures	$1,757,440	$1,400,915	1,735,260
Transfers:			
Debt Service	154,593	180,725	193,539
Other Transfers[4]	(24,092)	(4,758)	(5,017)
Net Transfers	$130,501	$175,968	$188,522
Total Expenditures and Net Transfers Out	$1,887,941	$1,576,882	$1,923,782

(1) For Fiscal Years 2015, 2016, and 2017 the schedule of revenues and expenditures includes all revenues and expenditures for the fiscal year, and encumbrances for the fiscal year, including accruals at June 30.

(2) These amounts represent the Trunk Highway Fund portion of the Motor Fuel, Motor Vehicle Registration, and Motor Vehicle Sales Taxes from the Highway User Tax Distribution Fund.

(3) Because construction contracts typically span into future fiscal years, and are encumbered in their entirety in the appropriate fiscal year, materially large amounts of encumbrances exist at the end of a fiscal year. For Fiscal Years 2015, 2016, and 2017, encumbrances have been included in Capital Outlay and Real Property totals.

(4) Net of all transfers in from State General Fund, County State Aid Highway Fund, Plant Management Fund, and Special Revenue Fund. FY 2015 includes $21M transfer for turnback of Old Highway 14.

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. In recent years, the cost of MinnesotaCare® has fallen as federal reimbursement has grown. Medical Assistance, Minnesota's Medicaid program, is now the largest expenditure in the Health Care Access Fund.

A 2 percent gross revenue tax on hospitals, health care providers 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. Based on current tax levels, projected activity in the Health Care Access Fund for the Previous Biennium and Current Biennium are detailed below:

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

Resources	
Unreserved Balance at June 30, 2015	$ 673
Revenues	1,481
Total Resources	$ 2,154
Expenditures	1,167
Unreserved Balance Before Transfers	$ 987
Transfers to Other Funds	274
Unrestricted Balance at June 30, 2017	$ 713

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

Resources	
Unreserved Balance at June 30, 2017	$ 713
Revenues	1,653
Total Resources	$ 2,366
Expenditures	1,092
Projected Unreserved Balance Before Transfers	$1,274
Transfers to Other Funds	670
Projected Unrestricted Balance at June 30, 2019	$ 604

In 2011, the Legislature enacted two major changes to the provider tax. The first is a provision which reduces portions of the tax revenues to the Health Care Access Fund depending upon the outlook for the fund that year. The Commissioner is required to evaluate the projected ratio of revenues to expenditures as well as its cash flows in the fund for the Current Biennium. If revenues exceed expenditures by 25 percent for the biennium, and if the cash balance in the fund is adequate, the 2 percent tax on gross revenues of hospitals, health care providers and wholesale drug distributors will be reduced to the extent that the ratio is not more than 1.25 percent. Any changes to the rate expire each calendar year and are to be re-determined by the Commissioner. To date, the criteria for reducing the tax have not been met.

The second major change enacted was the repeal of the provider tax effective January 1, 2020. In the Current Biennium, the provider tax represents 82 percent of Health Care Access Fund revenues. Following the expiration of the provider tax, the Health Care Access Fund will have a structural deficit of $526 million per year and is projected to be in deficit beginning FY 2022. An associated deficit in the Health Care Access Fund is likely to create pressures on the state General Fund, as the HCAF pays for almost $400 million per year, about 7 percent, of Medical Assistance. These expenditures remain state obligations in the absence of provider tax revenue. In addition, the HCAF transfers $122 million per year to the General Fund depending on a sufficient balance in the Health Care Access Fund. Under current projections, these transfers will end in FY 2022.

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.

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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. The State is the primary employer for MSRS.

Each system is governed by a board of directors 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 full approval by the 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, and 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 has historically appropriated 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, disabled 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 and salary. 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" below.

MSRS, PERA and TRA each prepare and publish their own comprehensive annual 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 2017, 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 Systems to determine its net pension liability ("NPL") using assumptions that conform to actuarial standards of practice issued by Actuarial Standards Board. The NPL is 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

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

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 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. 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 System's management, in consultation with their actuaries in accordance with the actuarial standards of practice. For Fiscal Year 2017, MSRS and PERA retained the 7.5 percent discount rate, and TRA reduced the discount rate from 8.0 percent to 7.5 percent, for GASB financial reporting purposes. See "Retirement Systems Funding" below 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 require 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"), to TRA for the former Duluth Teachers Retirement Fund Association ("DTRFA"), Minneapolis Teachers Retirement Fund Association ("MTRFA") and the St. Paul Teachers' Retirement Fund as the State's relationship to these plans meets the GAAP definition of a special funding situation.

Additionally, the GASB standard required 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 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 Fiscal Year 2014.

The GASB 71 standard objective is to address an issue regarding application of the transition provisions of GASB 68, Accounting and Financial Reporting for Pensions. 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 comprehensive annual financial reports for the Fiscal Year ended June 30, 2017, are available from the following public web sites:

MSRS: https://www.msrs.state.mn.us/financial-information
PERA: https://www.mnpera.org/home/about/financial/cafr/
TRA: https://www.minnesotatra.org/formspub/2017annualrpt.html

The Systems' actuarial reports for the Fiscal Year ended June 30, 2017, are available from the following public web sites:

MSRS: https://www.msrs.state.mn.us/actuarial-reports
PERA: https://www.mnpera.org/home/about/financial/actuarial-valuations/
TRA: https://www.minnesotatra.org/FORMSPUB/eepubs.html

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-83 through F-100) and Required Supplementary Information (pages F-149 through F-161) 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' Comprehensive Annual Financial Reports.

See "Recent Changes to Pension Obligation Reporting" 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 56,395 active employees, 44,195 retirees, disabilitants, and beneficiaries, and 18,434 members who no longer contribute, but are eligible for future monthly benefits or a refund of their contributions. 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 98.7 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, 2017, follow:

	State Employees Retirement Fund	Patrol Retirement Fund	Correctional Employees Retirement Fund	Judges Retirement Fund	Legislators Retirement Fund	Totals
Members:						
Retirees	33,563	847	2,576	255	301	37,542
Beneficiaries	3,940	148	216	80	74	4,458
Disabilitants	1,830	57	292	16	0	2,195
Terminated members:						
Vested, no benefits	17,006	59	1,310	15	44	18,434
Non-Vested	9,468	28	818	0	0	10,314
Active members:						
Vested	33,398	696	2,983	279	19	37,375
Non-Vested	17,180	206	1,596	38	0	19,020
Totals	116,385	2,041	9,791	683	438	129,338
Annualized Payroll	*$2,939,455,000*	*$73,056,000*	*$248,879,000*	*$47,813,000*	*$889,000*	*$3,310,092,000*

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, 2017, for the defined contribution funds total $7,911,295,000.

Overview – PERA

PERA administers pension funds that serve nearly 280,000 active county, school and local public employees, benefit recipients, their survivors and dependents. PERA serves more than 2,000 separate governmental entities. These participating employers include cities, counties, townships, and school districts located 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.

PERA administers five 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.

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. See "Pension Legislation and Litigation" below.

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.

As of June 30, 2017, PERA's combined membership in these three funds included 168,231 current, active employees and 109,865 retirees, beneficiaries, and disibilitants. Membership statistics for each of the funds, as of June 30, 2017, follow:

	General Employees Retirement Fund (GERF)	**Public Employees Police & Fire Fund (PEPFF)**	**Public Employees Correction al Fund (PECF)**	**TOTAL**
Retirees	85,777	7,408	853	94,038
Beneficiaries	8,645	1,861	54	10,560
Disabilitants	3,779	1,310	178	5,267
Terminated Members:				
Vested, no benefits	52,274	1,506	2,933	56,713
Non Vested	138,335	1,134	2,624	142,093
Active Members:				
Vested	94,845	9,114	2,169	106,128
Non Vested	58,022	2,408	1,673	62,103
Totals	441,677	24,741	10,484	476,902
Annualized Payroll	*$6,156,985,000*	*$944,296,000*	*$200,103,000*	*$7,301,384,000*

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 593 reporting employer units, 81,811 active members and a total of 64,774 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 2017.

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 City of Saint Paul, 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 have been 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, 2017, follow:

Retirees	58,989
Disabilitants	517
Beneficiaries	5,268
Terminated Members:	
Vested, deferred	14,030
Non Vested	33,344
Active Members:	
Vested	64,890
Non Vested	16,921
Total Membership	193,959

Annualized Payroll	*$4,688,875,000*

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 three statewide retirement systems, TRA, PERA, and MSRS. The Combined Funds covers active and retired employees and had a market value of $64.1 billion, as of June 30, 2017. The Combined Funds market value was $67.8 billion, as of March 31, 2018 (unaudited).

Assumed Return

Employee and employer contribution rates are specified in State law 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 annualized assumed investment return was 8.0 percent for Fiscal Year 2013 through Fiscal Year 2017 and 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," herein.) 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.

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 and 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. The asset allocation policy of the Combined Funds prior to Fiscal Year 2017 was approved by the SBI in December 2008, and was as follows:

Domestic Stocks	45%
International Stocks	15%
Bonds	18%
Alternative Assets	20%
Unallocated Cash	2%

The asset allocation policy of the Combined Funds beginning Fiscal Year 2017 was approved by the SBI in June 2016, was as follows:

Domestic Stocks	39%
International Stocks	19%
Bonds	20%
Private Markets*	20%
Unallocated Cash	2%

*Private Markets was previously referred to as "Alternative Assets."

Changes were made to the allocation policy for Fiscal Year 2018. 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. A new asset class for U.S. Treasury Bonds was funded in January and March of 2018. The target allocation to each asset class as of June 2018 is as follows:

Public Equity	49%
(Domestic Stocks - 33%)	
(International Stocks - 16%)	
Fixed Income*	16%
Private Markets	25%
U.S. Treasuries	8%
Unallocated Cash	2%

*Fixed Income was previously referred to as "Bonds."

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. (The target allocation for Fixed Income is 16 percent of the fund. A 5 percent deviation would equal 0.8 percent). The uncommitted allocation in Private Markets is invested in Public Equity. 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 24 to 30% 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, 2017 and March 31, 2018 (unaudited).

COMBINED FUNDS INVESTMENTS
PERIODS ENDING JUNE 30, 2017 AND MARCH 31, 2018 (UNAUDITED)
($'s in Millions)

	Policy as of June 30, 2017	Policy as of March 31, 2018	Actual Mix 6/30/2017	Market Value 6/30/2017[2]	Actual Mix 3/31/2018 (unaudited)	Market Value 3/31/2018[2] (unaudited)
Public Equities						
Domestic Stocks	**39%**	33%	43.2%	$27,713	40.1%	$27,186
International Stocks	**19**	16	21.6	13,894	19.9	13,489
Bonds/Fixed Income	**20**	16	19.4	12,425	15.8	10,713
Private Markets [1]	**20**	25	13.1	8,409	13.7	9,326
Treasuries	**NA**	8	NA	NA	8.9	6,047
Unallocated Cash	**2**	2	2.6	1,675	1.6	1,059
Total	**100%**	**100%**	**100.0%**	**$64,116**	100%	**$67,819**

[1] Uninvested allocation is held in domestic and international stocks.
[2] Market value based on fair value as defined in GASB 31.
Source: SBI Quarterly Board Book Performance, periods ended June 30, 2017 and March 31, 2018 (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 15.1 percent for the Fiscal Year ending June 30, 2017. The rate of return in the Combined Funds was approximately 12.7 percent for the one year period that began on April 1, 2017, and ended March 31, 2018 (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.

					Period Ending June 30, 2017					
	2013	**2014**	**2015**	**2016**	**2017**	**3 Yr.**	**5 Yr.**	**10 Yr.**	**20 Yr.**	**30 Yr.**
Combined Funds	**14.2%**	**18.6%**	**4.4%**	**-0.1%**	**15.1%**	**6.3%**	**10.2%**	**6.2%**	**7.2%**	**8.7%**
Composite Index	12.9%	18.0%	4.0%	1.1%	14.4%	6.3%	9.9%	6.0%	7.0%	8.5%
					Period Ending March 31, 2018 (unaudited)					
	2014	**2015**	**2016**	**2017**	**2018**	**3 Yr.**	**5 Yr.**	**10 Yr.**	**20 Yr.**	**30 Yr.**
Combined Funds	**15.6%**	**8.1%**	**-1.1%**	**12.5%**	**12.7%**	**7.8%**	**9.4%**	**7.6%**	**6.8%**	**9.2%**
Composite Index	14.3%	8.0%	-0.3%	12.4%	12.0%	7.8%	9.1%	7.2%	6.6%	8.9%

Source: SBI Quarterly Board Book and SBI Performance Management Data Base

Actual Combined Funds returns relative to the total fund composite index are shown above. For the 10 year period ending March 31, 2018 (unaudited), the Combined Funds outperformed the composite index by 0.4 percent points. For the 20 year period ending March 31, 2018 (unaudited), the Combined Funds outperformed the composite index by 0.2 percent points. The annualized rate of return was 9.2 percent for the past 30 year period ending March 31, 2018 (unaudited).

Comparing the Actual Combined Funds returns relative to the 7.5 percent annualized investment return assumption passed by the 2018 Legislature, for the period ended March 31, 2018 (unaudited), the Actual Combined Funds return exceeded the annualized investment return assumption for the most recent 3-year, 5-year, 10-year and 30-year periods. The Actual Combined Funds return was less than the 7.5 percent annualized investment return assumption passed by the 2018 Legislature for the most recent 20-year period ended March 31, 2018 (unaudited).

Fiscal Year 2017 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 has historically appropriated general (non-pension related) State aid payments to PERA, TRA, 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 2017 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 2017 State Pension Employer Contributions**[1]
State Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes[2]	No	$157,011
Correctional Employees Retirement Fund	**Multiple employer, cost-sharing plans**	Yes	No	$31,729
Judges Retirement Fund	**Single employer, State plan**	Yes	No	$10,758
Legislators Retirement Fund[3]	**Single employer, State plan**	Yes	No	$0
State Patrol Retirement Fund	**Single employer, State plan**	Yes	No	$15,783
Unclassified Employees Retirement Fund	Defined Contribution	Yes	No	$6,945
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 2017 State Pension Employer Contributions**[1]
General Employees Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[4]	Yes	$2,901
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 2017 State Pension Employer Contributions**[1]
Teachers Retirement Fund	**Multiple employer, cost-sharing plan**	Yes[5]	Yes[5]	$15,331[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 does not make employer contributions to PERA other than covered individuals employed by PERA, and a small number of employees from Minnesota State Colleges and Universities, the Public Defense Board, Department of Military Affairs and the court system that were grandfathered into the plan.

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

Source: MSRS, Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2017; PERA, Schedule Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only, for Fiscal Year ended June 30, 2017; TRA, Schedule of Employer and Non-Employer Allocations, Fiscal Year ended June 30, 2017.

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 plans[1] 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 both the Public Employees Retirement Association Police and Fire Retirement Fund and the MSRS State Patrol Retirement Fund become 90 percent funded on a market value of assets basis. 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 until fully funded. 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" below, in this APPENDIX B.

PERA: PERA consists of the assets of five pension funds, four of which are defined benefit plans. The State does not make employer contributions to PERA other than for covered individuals employed by PERA, and a small number of employees from Minnesota State, the Public Defense Board, Department of Military Affairs and the court system who were grandfathered in. 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 makes employer contributions to TRA for Minnesota State faculty members who have elected TRA, Perpich School for the Arts employees, certain Department of Education employees formerly covered by TRA and Faribault 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. For the Teachers' Retirement Fund, 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. See the table "State General Fund Appropriation History, Direct Aid to Pension Funds" below, in this APPENDIX B.

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 and 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, $16 million in Fiscal Years 2018 and 2019, and $6 million in Fiscal Year 2020 and each year thereafter through Fiscal Year 2032. See the table "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below.

Local 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 State's contribution remains at the Fiscal Year 1992 appropriation level, or less, until SPTRFA becomes fully funded. An additional supplemental appropriation was established beginning Fiscal Year 2014 that provides $9 million annually directly to PERA's Police and Fire Fund until the fund is 90 percent funded, and slightly increases the aid that is provided to local police or fire relief associations. The State also provides supplemental benefit reimbursement aid to help support retirement pensions for local volunteer fire fighters. See the table "STATE GENERAL FUND APPROPRIATION HISTORY AND ESTIMATES, PENSION RELATED LOCAL

[1]One 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.

GOVERNMENT AID" below.

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" below, 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, PENSION RELATED LOCAL GOVERNMENT AID" and "STATE GENERAL FUND APPROPRIATION HISTORY, DIRECT AID TO PENSION FUNDS" below.

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 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 the PERA Police and Fire and SPTRFA direct aids end when the respective fund reaches full funding or July 1, 2048, whichever is earlier. For more information about the 2018 Omnibus Retirement Act, see details under the "Pension Legislation and Litigation" header below.

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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)[3][4]	TRA/ DTRFA[4]	PERA Police and Fire Fund	Total
2008	$9,000	$15,801	$2,967	$ -	$ -	$ -	$27,768
2009	8,873	15,454	2,827	346	-	-	27,500
2010	9,000	15,454	2,827	346	-	-	27,627
2011	9,000	15,454	2,827	346	-	-	27,627
2012	22,750	15,454	2,827	346	-	-	41,377
2013	22,750	15,454	2,827	346	-	-	41,377
2014	24,000	15,454	9,827	6,346	-	-	55,627
2015	24,000	15,454	9,827	6,000	14,377	-	69,658
2016	6,000	29,831	9,827	-	-	-	45,658
2017	6,000	29,831	9,827	-	-	-	45,658
2018	16,000	29,831	9,827	-	-	-	55,658
2019	16,000	29,831	14,827	-	-	4,500	65,158
2020	6,000	29,831	14,827	-	-	4,500	55,158
2021	6,000	29,831	14,827	-	-	9,000	59,658

(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 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 is now $6.0 million in Fiscal Years 2016 and 2017, $16.0 million in Fiscal Years 2018 and 2019, and $6.0 million beginning in Fiscal Year 2020 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)These plans are separate from TRA, and the State has no direct custodial relationship. 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.

*Projections for FY 2018-FY 2021 as of the end of the 2018 Legislative Session.
Source: MMB General Fund balance analysis

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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 2018 through Fiscal Year 2021.

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
2008	$88,180	$1,514	$15,534	$571	$2,281	$ -	$108,080
2009	83,183	572	14,520	609	1,888	-	100,772
2010	80,500	829	14,390	722	5,890	-	102,331
2011	82,005	1,000	14,384	627	4,886	-	102,902
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*	105,108	2,729	14,065	584	2,094	15,500	140,080
**2019*	109,154	2,729	14,019	582	2,094	15,500	144,078
**2020*	113,134	2,729	13,973	582	2,094	15,500	148,012
**2021*	117,264	2,729	0	582	2,094	15,500	138,169

(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 Police & Fire fund, $5.5 million to Volunteer Firefighter plan employers and $1 million to the MSRS State Patrol fund.

*Projections for FY 2018-FY 2021 as of the end of the 2018 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. Until recently, the three Retirement Systems used different full funding dates, which have been determined in Minnesota Statutes, and are reported below as of the July 1, 2017, actuarial valuation date. 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 three Retirement Systems, except the Legislators Retirement Fund, to June 30, 2048. This date will be reflected in the financial statements of the three Retirement Systems for Fiscal Year 2018.

Retirement System	Fund	Funding Date as of June 30, 2017	Current Funding Date
MSRS	State Employees Retirement Fund	2042	2048
	State Patrol Retirement Fund	2039	2048
	Correctional Employees Retirement Fund	2038	2048
	Judges Retirement Fund	2039	2048
	Legislators Retirement Fund	2026	2026
PERA	General Employees Retirement Fund	2033	2048
	Public Employees Police and Fire Fund	2043	2048
	Public Employees Correctional Fund	2038	2048
TRA	Teachers Retirement Association Fund	2039	2048

To achieve full funding, contribution rates for the Retirement Systems 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 State law 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 under the "Assumed Return" header above.

In addition, for certain pension funds, the State adopted automatic modifications to post retirement pension benefit adjustments when pension funded ratios or contribution deficiency ratios reach certain levels (also known as cost of living adjustment, or COLA, triggers). For example, for TRA and MSRS funds (other than the Legislators Retirement Fund and the State Patrol Retirement Fund), once the fund achieved a 90 percent funded ratio (determined on a market value of assets basis) for two consecutive years, the current post-retirement benefit adjustment increased from the current 2 percent to 2.5 percent. Conversely, the law required the post-retirement benefit increase to drop back to 2 percent if the funding level fell below 85 percent for two consecutive years or 80 percent for one year. While these automatic modifications are reflected in the assumptions underlying the financial information contained in this Appendix B, all automatic modifications to post retirement pension benefit adjustments were repealed by the 2018 Legislature in the 2018 Omnibus Retirement Act. This change will be reflected in the financial statements of the Retirement Systems for Fiscal Year 2018 and years thereafter.

The Legislature sets the contribution rates needed to fund the Retirement Systems 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 to six 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
- 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 six-year experience study for MSRS' State Employees Retirement Fund covered the period July 1, 2008, through June 30, 2014, and was completed on June 30, 2015. Based on the results of this study, several changes in economic and demographic actuarial assumptions were recommended by the MSRS actuary and approved by the MSRS board and LCPR, including:

- decreasing the investment return rate, currently at 8.00 percent, to an amount within the range of 7.00 percent to 8.00 percent,
- decreasing the price inflation rate from 3.00 percent to 2.75 percent,
- decreasing the payroll growth rate from 3.75 percent to 3.5 percent,
- adjusting merit and seniority pay increase rates,
- changing mortality rates from RP-2000 to MP-2014 tables, which result in a decrease in assumed mortality rates at almost all ages,
- adjusting retirement and withdrawal rates,
- changing the assumed post-retirement benefit increase rate from 2.00 percent per year through 2015 and 2.50 percent per year thereafter to 2.00 percent per year through 2020 and 2.50 percent per year thereafter, and
- decreasing the assumed percentages of married members, and adjusting the percentages of married members electing various forms of annuity payments.

Experience studies for MSRS' State Patrol, Correctional Employees, and Judges Retirement Funds for the period July 1, 2011 through June 30, 2015, were completed on June 30, 2016. Based on the results of these studies, several changes in economic and demographic actuarial assumptions were recommended, including:

- adjusting assumed retirement ages;
- adjusting disability rates
- adjusting merit and seniority pay increase rates,
- adjusting retirement and withdrawal rates,
- adjusting assumed termination rates, and
- changing mortality rates from RP-2000 to RP-2014 tables, white collar adjustment, with future improvements projected using scale MP-2015 from a base year of 2006, which result in a decrease in assumed mortality rates at almost all ages.

Assumption changes require approval of the MSRS Board of Directors and the LCPR. The MSRS Board approved the changes in the actuarial assumptions, other than the investment return (or interest rate) assumption, for the State Employees Retirement Fund, on July 16, 2015. Subsequently, in February 2016, the LCPR adopted the same proposed changes in actuarial assumptions. The MSRS Board approved changes in the actuarial assumptions on September 15, 2016, for the State Patrol, Correctional Employees, and Judges Retirement Funds. The LCPR adopted the same proposed changes in actuarial assumptions on February 14, 2017.

An experience study for PERA's General Employees Retirement Fund (GERF) was completed in 2015 and covered the period from July 1, 2008, through June 30, 2014. Recommended assumption changes included:

- Decrease the payroll growth assumption,
- Decrease the retirement rate assumption,
- Increase the termination (withdrawal) rate assumption,
- Decrease the disability rate assumption, and
- Change the base mortality table from RP-2000 to RP-2014.

These changes were adopted by the PERA board and the LCPR and were implemented in the 2016 actuarial valuation.

An experience study for the Police and Fire Fund covering the period from July 1, 2011 to June 30, 2015 was completed in August 2016. Recommended assumption changes included:

- Decrease assumed rates of merit and seniority increases,
- Increase the assumed rate of unreduced retirements,

- Decrease the assumed rate of reduced (early) retirements,
- Decrease assumed termination (withdrawal) rates, and
- Change the base mortality table to the to RP-2014.

The recommendations were reviewed and approved by the PERA board at its October, 2016 meeting and approved by the LCPR during the 2017 Legislative Sessions.

The July 1, 2008, through June 30, 2014, actuarial experience study for TRA was completed in June 2015. The report contained a number of economic and demographic recommendations, including adopting retiree mortality based on RP-2014 tables, including the MP-2015 improvement scale (reflecting longer life expectancy), lowering the assumed growth in total member covered salary from 3.75 percent annually to 3.50 percent annually and changing the discount rate assumption to 8.0 percent for all years. On February 3, 2016, the LCPR enacted a set of assumption changes for TRA; however, the assumption changes requiring changes in law, including lowering the discount rate assumption to 8 percent, were not enacted due to the veto of the omnibus pension bill by Governor Dayton. (See "Pension Legislation and Litigation," herein.) During the 2017 Legislative Sessions, TRA sought a change to the earnings assumption of 7.5 percent for 5 years and 8.0 percent for future years, but no pension legislation was enacted.

In December 2017, the Board of Trustees recommended that the LCPR approve the following assumption changes:

Assumption:	Current Assumption	Proposed Assumption
Price Inflation	3.00%	2.50%
Long-term Investment Return	8.50%	7.50%
Wage inflation (above price inflation)	0.75%	0.35% for the next 10 years, 0.75% thereafter
Payroll Growth	3.50%	3.00%
Total Salary Increase	Varies with Service	Adjusted by the changes in wage inflation

In February 2018, the LCPR adopted these recommendations, which will be reflected in the actuarial valuation reports for Fiscal Year 2018 and years thereafter. The package of assumption changes are estimated to increase the annual required contribution rate to the TRA Fund by 5.3 percent of active member payroll. The one actuarial assumption contained in statute (annualized assumed investment return) was successfully modified to 7.5 percent by the 2018 Legislature.

The next complete experience study for TRA will cover the period from July 1, 2014 through June 30, 2018. The report is expected to be available in May 2019.

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Actuarial Valuation Requirements

State law regulates the administration of the pension funds. State law requires that all pension funds must conduct an actuarial valuation as of the end of the fiscal year. 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 "Recent Changes to Pension Obligation Reporting" below.

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 two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

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 expected rate of return of assets, 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 expected rate of return of assets, 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, 2017, the aggregate market value of all of the assets of the pension systems, as determined by the pension systems' actuaries, was approximately $64.262 billion. As of June 30, 2017, the aggregate actuarial value of all assets of the pension systems was $63.662 billion.

The following table provides a summary analysis of funding status for 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, 2017, 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, 2017[(1)]

($'s in millions)

		Actuarial Value			Market Value			Membership	
	Actuarial Accrued Liability [2]	Actuarial Value of Assets (AVA) [3]	Unfunded Actuarial Accrued 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	$14,509	$12,365	$2,144	85.22%	$12,486	$2,024	86.05%	50,578	65,807
— Correctional Employees Retirement Fund	1,414	1,013	401	71.63%	1,024	391	72.38%	4,579	5,212
— State Patrol Retirement Fund	881	685	196	77.77%	692	189	78.52%	902	1,139
— Judges Retirement Fund	349	183	166	52.54%	185	164	53.05%	317	366
— Legislators Retirement Fund[(7)]	228	0	228	N/A	0	228	N/A	19	419
Subtotal	$17,381	$14,247	$3,135		$14,386	$2,995		56,395	72,943
Public Employees Retirement Association (PERA):									
— General Employees Fund	$25,616	$19,916	$5,699	77.75%	$20,101	$5,515	78.47%	152,867	288,810
— PERA Police & Fire Fund	9,199	7,841	1,359	85.23%	7,919	1,280	86.08%	11,522	13,219
— Local Correctional Service Fund	630	595	35	94.52%	602	27	95.65%	3,842	6,642
Subtotal	$35,445	$28,352	$7,093		$28,622	$6,823		168,231	308,671
Teachers' Retirement Association (TRA):	$27,428	$21,063	$6,365	76.79%	$21,253	$6,174	77.49%	81,811	112,148
Custodial Subtotal	$80,254	$63,662	$16,592		$64,262	$15,992		306,437	493,762
2. Other Funds to Which the State Contributes									
Local Police & Fire Associations[(8)]	$146	$176	-$30	120.56%	$176	-$30	120.56%	114	215
St. Paul Teachers' Retirement Fund	1,611	1,038	573	64.45%	1,032	579	64.07%	3,550	8,830
Other Contribution Subtotal	$1,757	$1,214	$543		$1,208	$549		3,664	9,045
TOTAL	**$82,011**	**$64,876**	**$17,135**		**$65,470**	**$16,541**		**310,101**	**502,807**

(1)The information provided in this table reflects the condition of all funds as of June 30, 2017 and is derived from actuarial valuation results as of July 1, 2017. For additional information on the State's pension systems, refer to the State Financial Statements in APPENDIX F. See Note 8 – Pension and Investment Trust Funds (see pages F-83 through F-100) and Required Supplementary Information (see pages F-149 through F-161).

(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 Funded 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, 2017 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 January 1, 2018 for Bloomington Fire Relief Association. The Bloomington Fire Relief Association exclusively reports funding status data using market values.

Source: Retirement Systems' comprehensive annual financial reports and actuarial reports, Fiscal Year ended June 30, 2017; Bloomington Fire Relief Association actuarial valuation report, calendar year ended December 31, 2017.

Recent Changes to Pension Obligation Reporting

GASB Statement No. 67: In June 2012, GASB issued GASB Statement No. 67 ("GASB 67"), which amends GASB Statement No. 25 and sets forth new 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. Significant 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 new standard was effective commencing with the State's Fiscal Year 2014.

One significant change implemented by GASB 67 is that reporting under the new requirements is based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year. Commencing with Fiscal Year 2014, the Retirement Systems' actuaries now also prepare a report for each system reflecting fiscal year results under the new accounting requirements.

The new standard requires 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 Fiscal Year 2017 GASB 67 Reports are based on June 30, 2017 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, 2017. 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. The multiple rates are then reduced to a single discount rates used to measure the total pension liability. The respective single discount rates used for the Fiscal Year 2017 GASB 67 Reports were 5.42 percent for MSRS's largest fund, the General Employees Retirement Fund, 7.5 percent for PERA's largest fund, the General Employees Fund, and 5.12 percent for TRA. For the MSRS valuation, the expected rate of return on pension plan investments was 7.5 percent and the municipal bond rate was 3.56 percent (based on a fixed-income municipal bond rate as of June 30, 2017). The resulting single discount rate as of July 1, 2017, was 5.42 percent.

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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 2017 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 15.1 percent for Fiscal Year 2017. 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 June 30, 2017
($'s in Thousands)

	Total Pension Liability	Plan Fiduciary Net Position[1]	NPL	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll[2]	NPL as a Percentage of Covered Payroll
MSRS:						
State Employees	$19,903,520	$12,485,614	$7,417,906	62.73%	$2,939,455	252.36%
State Patrol	1,037,916	691,599	346,317	66.63%	73,056	474.04%
Correctional Employees	2,151,931	1,023,817	1,128,114	47.58%	248,879	453.28%
Judges	363,483	185,141	178,342	50.94%	47,813	373.00%
Legislators[3]	147,324	0	147,324	0.00%	889	16,571.88%
MSRS Totals	$23,604,174	$14,386,171	$9,218,003	60.95%	$3,310,092	278.48%
TRA	$ 41,219,904	$ 21,258,090	$ 19,961,814	51.57%	$ 4,688,875	425.73%
PERA:						
General Employees	$26,484,513	$20,100,579	$6,383,934	75.90%	$6,156,985	103.69%
Police and Fire	9,268,998	7,918,879	1,350,119	85.43%	944,296	142.98%
Local Government Correctional	887,461	602,460	285,001	67.89%	200,103	142.43%
Total PERA	$36,640,972	$28,621,918	$8,019,054	78.12%	$7,301,384	109.83%

[1]Represents the market value of plan assets as of the actuarial valuation date.
[2]As of the actuarial valuation date.
[3]Is currently funded on a pay-as-you-go basis.
Source. Retirement Systems' GASB 67 and 68 Actuarial reports, Fiscal Year ended June 30, 2017.

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 2017 are as follows:

MINNESOTA RETIREMENT SYSTEMS
SENSITIVITY OF THE FY 2017 NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE
USING GASB STATEMENT NO. 67
Actuarial Valuation Date as of June 30, 2017
($'s in Thousands)

	With 1% Decrease		**Current Discount Rate**		**With 1% Increase**	
	Rate	**NPL**	**Rate**	**NPL**	**Rate**	**NPL**
MSRS						
State Employees	4.42%	$10,393,381	5.42%	$7,417,906	6.42%	$4,986,527
State Patrol	5.38%	$483,870	6.38%	$346,317	7.38%	$233,692
Correctional Employees	4.02%	$1,513,735	5.02%	$1,128,114	6.02%	$823,061
Judges	6.50%	$215,488	7.50%	$178,342	8.50%	$146,517
Legislators	2.56%	$164,518	3.56%	$147,324	4.56%	$132,985
TRA	4.12%	$ 26,345,748	5.12%	$ 19,961,814	6.12%	$ 14,759,381
PERA						
General Employees	6.50%	$ $9,901,956	7.50%	$6,383,934	8.50%	$3,503,794
Police and Fire	6.50%	$2,542,668	7.50%	$1,350,119	8.50%	$365,604
Local Government Correctional	4.96%	$469,646	5.96%	$285,001	6.96%	$140,883

Source. Retirement Systems' GASB 67 and 68 Actuarial reports, Fiscal Year ended June 30, 2017.

GASB Statement No. 68: In June 2012, GASB also issued GASB Statement No. 68, which set forth new standards that modified the accounting and financial reporting of the State's pension obligations. The new 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 related to the former MERF, and to TRA related to the former DTRFA and the St. Paul Teachers' Retirement Fund 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 - Actuarial Methods and Assumptions, GASB" and "MSRS - Actuarial Methods and Assumptions" 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.

The 2010 legislation also provided for the administrative consolidation of the closed MERF and PERA. MERF assets and liabilities remained segregated until the fiscal year end market value of assets of the MERF account equals or exceeds 80 percent of the actuarial accrued liability of the MERF account. The legislation also increased the annual State contribution to the MERF account from $9 million annually to $22.75 million in each Fiscal Year 2012 and 2013 and $24 million each year thereafter through FY 2031. Beginning in Fiscal Year 2013, the annual additional employer supplemental contribution was established to be a minimum of $27 million and a maximum of $34 million.

In the 2011 Legislative Special Session, the Legislature passed a minor omnibus pension bill that was signed into law by the Governor. Included in the bill were modifications to the post retirement adjustments for SPTRFA that will reduce future liabilities and language permitting voluntary merger of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association with the PERA's Public Employee's Police and Fire Retirement Fund.

The 2012 Legislature modified the investment earnings assumption for determining employee and employer contribution rates such that contributions plus expected investment earnings (at the assumed rate of return) will cover the projected cost of promised pension benefits. The investment earnings assumption was modified to a "select and ultimate" method, effective for the July 1, 2012 actuarial valuation report. The "select" assumed annualized investment return of 8.0 percent was to be used for the first five years for Fiscal Year 2013 through Fiscal Year 2017 actuarial valuation reports, and the "ultimate" assumed annualized investment return rate of 8.5 percent was to be used for the sixth year forward, 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 zero percent for all years. This approach was employed to recognize the market environment that had diminished the short term market expectations while recognizing that over the longer term the higher rate is expected to be met -- and actually has been met and exceeded. The legislation also directed delaying the next experience study until 2015 for TRA, MSRS's General Employees Retirement Plan, and PERA's General Employees Retirement Fund to cover the six-year period of July 1, 2008, through June 30, 2014.

The 2013 Legislature made several modifications to contribution rates, benefit formulas and direct State aid for the MSRS State Patrol Retirement Plan and Judges Retirement Plan.

- Changes to the MSRS State Patrol Retirement Plan included a four percent contribution rate increase from employees and a six percent increase from employers over a four year period. Specifically, State Patrol Retirement Plan employees paid an additional two percent before the first day of the first pay period beginning after July 1, 2014, another one percent on or after the first day of the first pay period beginning after July 1, 2015, and another one percent on July 1, 2016. State Patrol Retirement Plan employers added 3 percent of pay before the first day of the first pay period beginning after July 1, 2014, another 1.5 percent on or after the first day of the first pay period beginning after July 1, 2015 and another 1.5 percent on July 1, 2016. Total contributions at the end of the phase-in period in July 2016 were 14.4 percent and 21.6 percent of pay for employees and employers, respectively. Future annual adjustments paid to benefit recipients of the MSRS State Patrol Plan were reduced from 1.5 percent to one percent per year until the Plan is again 85 percent funded, determined on a market value of assets basis. Annual adjustments increase to 2.5 percent when the Plan reaches 90 percent funded, as determined on a market value of assets basis. Additionally, the Legislature appropriated direct State aid to the MSRS State Patrol Retirement Plan of $1 million per year beginning in FY 2014 until the plan is 90 percent funded, determined on a market value of assets basis.
- Changes to the MSRS Judges Retirement Plan included establishment of a tier 1 and tier 2 benefit program, with a tier 1 judge first appointed or elected on or before July 1, 2013, with five or more years of allowable service, and a tier 2 judge first appointed or elected after June 30, 2013, or first appointed on or before July 1, 2013, with less than five years of allowable service. Member contribution rates for judges in the tier 1 program increased one percent, from eight percent to nine percent, effective July 1, 2013. Member contribution rates for judges in the tier 2 program are 7 percent of salary. Employer contribution rates increased two percent, from 20.5 percent to 22.5 percent, effective the first day of the first full pay period after June 30, 2013. Future annual adjustments paid to benefit recipients of the Judges Plan were reduced from two percent to 1.75 percent per year until the Judges Plan is again 70 percent funded, determined on a market value of assets basis. Thereafter, annual adjustments were set at 2.5 percent.

The 2013 Legislature also authorized the merger of the MSRS Elective State Officers Retirement Plan into the Legislators Retirement Plan for administrative cost-saving purposes. The merger took effect July 1, 2013. Benefit provisions for both plans remain unaffected by the merger.

The 2013 Legislature also made several modifications to contribution rates, benefit formulas and direct State aid for the PERA Police and Fire Fund, TRA, DTRFA and SPTRFA. Changes to the PERA Police and Fire Fund included the following: member and employer contributions increased in two steps from 9.6 percent of salary to 10.8 percent of salary and 14.4 percent of salary to 16.2 percent of salary, respectively; post-retirement adjustments established at 1 percent until the fund becomes at least 90 percent funded on a market value basis for two consecutive actuarial valuations, and at that time, post-retirement adjustments will be reset at rates not to exceed 2.5 percent. However, if the funded ratio of the retirement fund is equal to or less than 85 percent for two consecutive actuarial valuations, or is equal to or less than 80 percent for the most recent actuarial valuation, post retirement adjustments will again be dropped to one percent. Additionally, direct State-aid to the PERA Police and Fire Fund was appropriated at $9 million per year beginning in Fiscal Year 2014; and, a direct appropriation of $5.5 million per year in aid was provided to local employers in the PERA Volunteer Firefighter Plan beginning in Fiscal Year 2014.

Further, 2013 legislative changes included, to the DTRFA, employee contributions increased by one percent of pay and employer contributions increased by 0.71 percent of pay, current benefit accrual rates of 1.2 percent and 1.7 percent increased to 1.4 percent and 1.9 percent for post-2013 service credit, and direct State aid increased to $6.346 million from $346 thousand in Fiscal Year 2014 and 2015 only. Changes to the SPTRFA included the following: employee and employer contributions increased by one percent of pay each, current benefit accrual rates of 1.2 percent and 1.7 percent increased to 1.4 percent and 1.9 percent for post-2015 service credit, and direct State aid was increased to $9.827 million from $2.827 million in Fiscal Year 2014 and Fiscal Year 2015 only. Other changes included modifying reduction factors applied to members retiring prior to normal retirement age for TRA, SPTRFA and DTRFA and a requirement for TRA, SPTRFA and DTRFA to jointly study the feasibility of a merger with a report ready for the 2014 Legislature's review.

The 2014 Legislature acted to fully merge DTRFA with TRA, effective June 30, 2015, with approval from the DTRFA board and membership and the TRA board. As part of the merger legislation, $14.031 million in new direct aid to the TRA was annually appropriated beginning in Fiscal Year 2015 with expiration occurring when the TRA is fully funded. Additionally, $346 thousand in annual State-aid to DTRFA was transferred to TRA beginning in FY 2015. The 2014 Legislature also voted to extend the $7 million in annual State-aid to SPTRFA until the fund is fully funded. This aid expired after Fiscal Year 2015.

Further, the 2014 Legislature changed the trigger mechanism for post-retirement benefit adjustments from one-year to two years for TRA and all MSRS plans. For TRA, MSRS General Employees Retirement Fund, MSRS Correctional, MSRS Legislators, and MSRS Unclassified the post-retirement adjustment trigger procedure was revised to require the funding ratio based on market value for the applicable plan to be 90 percent or greater in two consecutive actuarial valuations, rather than in a single actuarial valuation, before post-retirement adjustments greater than 2 percent can be paid. For the MSRS Judges plan, a funding ratio based on market value of assets of at least 70 percent in two consecutive actuarial valuations, rather than in a single actuarial valuation, must be reached before post-retirement adjustments of 1.75 percent can be paid. For the MSRS State Patrol Plan, the funding ratio must exceed 85 percent for two consecutive valuations, rather than a single valuation, before post retirement adjustments are increased 2 percent. Additionally, the 2014 Legislature codified contribution rate increases of covered payroll of 0.5 percent employee/0.5 percent employer for MSRS General Employees Retirement Fund effective July 1, 2014, 0.5 percent employee/0.75 percent employer for MSRS Correctional effective July 1, 2014 and 0.25 percent employee/0.25 percent employer for PERA General Employees Retirement Fund effective January 1, 2015.

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. 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 per year for the Previous Biennium, and by $8 million per year for future fiscal years. 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. Governor Mark Dayton vetoed the bill.[2] In his veto letter, 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] Governor Dayton vetoed the bill; thus, these changes were

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[1] A 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.
[2] Governor Dayton's veto message regarding Chapter 177 (S.F. 588) can be found here:
https://www.leg.state.mn.us/archive/vetoes/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

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.[1]

The 2017 Legislature also reduced the annual state aid to PERA's MERF Account from $16.0 million annually to $6.0 million annually beginning in Fiscal Year 2020.

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 Governor on May 31, 2018. The act contains 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 LPCR, provides information about the enacted changes:[2]

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 are 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 reduces 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 current rates of augmentation, 5.5% (until age 55) and 7.5% (from age 55 to the date pension payments begin) are 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%, 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 eliminates 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 reduces the rate of interest on refunds of employee contributions to former employees from 4 percent annually to 3 percent annually.

All changes are effective prospectively, which means that the benefit accrued to the effective date of the change is 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 reduces or temporarily suspends the COLA increases automatically applied to retiree pension benefits and, for two pension plans administered by PERA, changes the method for determining the amount of COLA increases to tie them to COLA increases on federal Social Security pensions.

The COLA-related changes in the act are 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 removes these automatic modifications to post retirement pension benefit adjustments for all plans.

- *COLA percentage reduced:* The percentage of automatic increase is modified for these plans:

  MSRS General Plan: From the current 2 percent to 1 percent through calendar year 2023, then 1.5 percent thereafter.

  MSRS Correctional Plan: From the current 2 percent to 1.5 percent.

  TRA: From the current 2 percent to 1 percent through calendar year 2023, then the rate will increase by 0.1

[1] Governor Dayton's veto letter regarding Chapter 2 (S.F. 3) can be found here:
https://www.leg.state.mn.us/archive/vetoes/2017_sp1veto_ch2.pdf
[2] 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.

percent each year until it reaches 1.5 percent, and remain at 1.5 percent thereafter.

SPTRFA: No COLA increase for 2 years, then 1 percent thereafter.

- *COLA tied to SSA COLAs:* For the PERA General and Correctional Plans, the COLA will be tied to the COLA as announced each year by the federal Social Security Administration.

  PERA General Plan: The increase as of a January 1 will be 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 will be 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 St. Paul Teachers.

The act updates assumptions for investment rate of return and re-sets 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 removes the assumptions for payroll growth and salary increases and adds a reference 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 reduces the annualized assumed investment return that is required to be used in the actuarial valuation for each plan to 7.5 percent. Currently, Minnesota Statutes require 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 imposes 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%	

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 requires the State to make annual payments each October 1 directly to the PERA Police and Fire Plan and to SPTFA 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 amends 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 provides funding to executive branch state agencies and school districts to offset expected costs related to the employer contribution rate increases. It amends 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 provides 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 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 has historically appropriated 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 98.7 percent of total assets for MSRS's defined benefit funds. Refer to the MSRS Comprehensive Annual Financial Report for further discussion of actuarial valuations for the MSRS defined benefit pension funds as of June 30, 2017.

The State Employees Retirement Fund which includes the General Employees Retirement Plan, the State Fire Marshals Plan, the Military Affairs Plan and the Transportation Pilots Plan, was 85.22 percent funded, with the actuarial value of assets totaling $12.365 billion, and the actuarial accrued liability totaling $14.509 billion, as of June 30, 2017. The State Employees Retirement Fund's funding status, determined on a market value of assets basis, increased from 78.39 percent as of the June 30, 2016 to 86.05 percent as of June 30, 2017. The improvement was due to the 15.1 percent investment return in Fiscal Year 2017 and to a change in actuarial assumption for members with Combined Service Annuities (service credits for members who have been covered by more than one retirement plan).

The actuarial valuation also calculates the required contribution rates that are necessary to ensure that the MSRS funds become fully funded. Under Minnesota Statutes in place for the valuation as of July 1, 2017, the State Employees Retirement Fund must be fully funded by June 30, 2042, the State Patrol Retirement Fund must be fully funded by June 30, 2039, the Correctional Employees Retirement Fund must be fully funded by June 30, 2038 and the Judges Retirement Fund must be fully funded by June 30, 2039. As noted above, the 2018 Omnibus Retirement Act extends the full funding date for these funds to June 30, 2048. As of June 30, 2017, the statutory contributions currently received from members and employers to the State Employees Retirement Fund were 2.24 percent below the amount required to fully fund the retirement fund by 2042. The contribution deficiency rate decreased from 3.49 percent as of June 30, 2016, to 2.24 percent of payroll as of June 30, 2017 (projected annual payroll for the Fiscal Year beginning on the July 1, 2017, valuation date was $2.94 billion). The primary reasons for the improvement in the deficiency were due to the 15.1 percent investment return in Fiscal Year 2017 and to a change in actuarial assumption for members with Combined Service Annuities. See the "2018 Omnibus Retirement Act" header above for details about the enacted reforms applicable to the State Employees Retirement Fund.

The MSRS Correctional Employees Retirement Fund was 71.63 percent funded with the actuarial value of assets totaling $1.013 billion and the actuarial accrued liability totaling $1.414 billion, as of June 30, 2017. The contribution deficiency increased from 5.61 percent of payroll as of June 30, 2016, to 6.45 percent of payroll as of June 30, 2017 primarily due to actuarial assumption changes including mortality improvements. Funding status, determined on a market value of assets basis increased from 68.49 percent as of June 30, 2016, to 72.38 percent as of June 30, 2017. The improvement was mainly due to a 15.1 percent investment return in Fiscal Year 2017. See the "2018 Omnibus Retirement Act" header above for details about the enacted reforms applicable to the Correctional Employees Retirement Fund.

The State Patrol Retirement Fund was 77.77 percent funded with the actuarial value of assets totaling $685.1 million, and the actuarial accrued liability totaling $880.9 million, as of June 30, 2017. The contribution deficiency increased from 3.08 percent of payroll as of June 30, 2016, to 5.33 percent of payroll as of June 30, 2017. The primary reasons for the increased contribution deficiency was because of actuarial assumption changes including mortality improvement. Annual State contributions of $1 million were reflected in the computations of the contribution deficiency as of June 30, 2017. The funding status, determined on a market value of assets basis, increased from 75.55 percent as of the June 30, 2016, to 78.52 percent as of June 30, 2017. This improvement was mainly due to a 15.1 percent investment return in Fiscal Year 2017. See the "2018 Omnibus Retirement Act" header above for details about the enacted reforms applicable to the State Patrol Retirement Fund.

The Judges Retirement Fund was 52.54 percent funded, with the actuarial value of assets totaling $183.4 million and the actuarial accrued liability totaling $349.0 million as of June 30, 2017. The contribution deficiency for the plan decreased from 6.28 percent of payroll as of June 30, 2016, to 1.97 percent of payroll as of June 30, 2017. The primary reason for the decreased contribution deficiency was because the 2016 Legislature provided appropriations for the Judges Retirement Fund totaling $3 million in Fiscal Year 2017 and $6 million each fiscal year thereafter until the plan reaches 100.0 percent funding as determined by an actuarial valuation. Funding status, determined on a market value of assets basis, increased from 50.07 percent as of June 30, 2016, to 53.05 percent as of June 30, 2017.

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

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MSRS – Statutory Actuarial Methods and Assumptions

Statutory: The prior annual 5.5 percent employer and 5.5 percent employee contributions for State Employees Retirement Fund were established in Minnesota Statutes. As previously described, the 2018 Legislature increased these contribution rates in the 2018 Omnibus Retirement Act as of FY 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	8.0% 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	3.50% per year.
Experience Studies	Period Covered: Fiscal Year 2009-2014
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, 2017	$120,657,000

Sources: MSRS Comprehensive Annual Report, June 30, 2017, and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2017.

The methods and assumptions used to calculate actuarially required contribution of the other defined benefit plans in the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2017. See “General Information” above. Also see “Pension Legislation and Litigation” for information on changes that came into effect after June 30, 2017, to the methods and assumptions used to calculate actuarially required contribution for defined benefit plans.

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
PERCENTAGE OF PAYROLL ACTUAL CONTRIBUTION RATES AS COMPARED TO STATUTORY ACTUARIALLY RECOMMENDED RATES
TEN-YEAR CONTRIBUTION HISTORY

As of	*Statutory Actual Contribution Rates*			*Actuarial Recommended Rate*	*Sufficiency/ Deficiency Employee*
	Employee	*Employer*	*Total*		
July 1, 2008	4.50%	4.50%	9.00%	12.39%	(3.39)%
July 1, 2009	4.75%	4.75%	9.50%	14.85%	(5.35)%
July 1, 2010	5.00%	5.00%	10.00%	10.99%	(0.99)%
July 1, 2011	5.00%	5.00%	10.00%	11.03%	(1.03)%
July 1, 2012	5.00%	5.00%	10.00%	12.32%	(2.32)%
July 1, 2013	5.00%	5.00%	10.00%	12.45%	(2.45)%
July 1, 2014	5.50%	5.50%	11.00%	12.82%	(1.82)%
July 1, 2015	5.50%	5.50%	11.00%	12.44%	(1.44)%
July 1, 2016	5.50%	5.50%	11.00%	14.49%	(3.49)%
July 1, 2017	5.50%	5.50%	11.00%	13.24%	(2.24)%

Sources: MSRS Comprehensive Annual Financial Reports (2008 – 2017) – 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 sufficient 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)

	Aggregate Accrued Liabilities				**Portion Covered by Reported Assets**			
Valuation Date (July 1)	**Active Member Contributions (1)**	**Retirees and Beneficiaries (2)**	**Employer Financed Portion (3)**	**Reported Assets**	**% (1)**	**% (2)**	**% (3)**	**Funding Ratio (%)**
2008	1,041,731	4,251,341	4,701,530	9,013,456	100	100	79.1	90.2
2009	1,102,082	4,496,247	4,914,431	9,030,401	100	100	69.8	85.9
2010	1,155,473	4,535,401	4,573,197	8,960,391	100	100	71.5	87.3
2011	982,365	4,982,212	4,611,904	9,130,011	100	100	68.6	86.3
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

Source: MSRS Comprehensive Annual Report, June 30, 2017 – 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 Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2017. See “General Information” above.

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, 2017.

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: 5.5 percent effective July 1, 2014 Employers: 5.5 percent effective July 1, 2014 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	*Eligibility for unreduced retirement benefits:* 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. *Eligibility for reduced retirement benefits:* 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, and 4 percent thereafter.

Source: Minnesota State Retirement System 2017 Comprehensive Annual Financial Report.

Eligibility and benefit formulas for the various plans covered under the Retirement Systems are provided in the MSRS, TRA and PERA Comprehensive Annual Financial Reports for the Fiscal Year ended June 30, 2017. See "General Information" above.

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 2017, when excluding component units that submit contributions to MSRS separately from the state payroll, approximately 44 percent of State employer contributions came from the General Fund, 14 percent from the Trunk Highway Fund and 6 percent from federal funds. All other State employer contributions were from 105 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)

Fiscal Year Ended (June 30th)	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	
2008	96,746	18,623	435	7,936	2,217	8,279	134,236
2009	107,211	20,126	442	8,219	1,269	9,178	146,445
2010	113,716	21,988	453	8,283	1,975	10,104	156,519
2011	118,563	23,982	460	8,297	2,805	9,873	163,980
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

(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 the $3 million supplemental State aid that the fund received during Fiscal Year 2017. This amount is recognized as other income in MSRS' financial statements.

(4) Employer contributions to the State Patrol Retirement Fund do not include the annual $1 million supplemental State aid that the fund received. This amount is recognized as other income in MSRS' financial statements.

Sources: MSRS Comprehensive Annual Financial Reports (2008-2017).

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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 Comprehensive Annual Financial Report as of June 30, 2017.

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 for fiscal years beginning after June 15, 2014 (State Fiscal Year 2015). 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

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Value of Assets
Long-term Expected Return	7.50 percent
Inflation	2.50 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	3.25 percent
Mortality Rates	RP-2014 employee generational mortality table projected with mortality improvement Scale MP-2015. From a base year of 2014, white collar adjustment, set forward one year for males and no age adjustment for females.
Annual post-retirement benefit increases (e.g. cost of living adjustments)	2.0 percent

Sources: MSRS Comprehensive Annual Report, June 30, 2017 and the State Employees Retirement Fund Actuarial Valuation Report as of July 1, 2017.

GASB Statements No. 67 and No. 68 actuarial valuation results show that on June 30, 2017, employers contributing to the MSRS' largest cost-sharing fund, the State Employees Retirement Fund (the General Employees Retirement Plan), incurred NPL of $7.4 billion. Actuaries determined this amount assuming a lower long-term expected single discount rate of return of 5.42 percent, an inflation rate of 2.50 percent, and payroll growth and salary increase assumptions that were 25 basis points less than the prescribed assumptions. As a result, employers will report pension expense of $1.198 billion, instead of a pension income. Lastly, as of the June 30, 2017 measurement date, Fiduciary Net Position as a percentage of the Total Pension Liability was 62.73 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 2017, 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, 2017
($ 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	FY2017 Pension Expense / (Income)	State's Share of Pension Expense/ (Income)
State Employees	$19,903,520	$12,485,614	$7,417,906	62.73%	99.245%	$7,361,901	$1,197,948	$1,188,994
State Patrol	1,037,916	691,599	346,317	66.63%	100.000%	346,317	51,695	51,695
Correctional Employees	2,151,931	1,023,817	1,128,114	47.58%	99.909%	1,127,087	163,904	163,784
Judges	363,483	185,141	178,342	50.94%	100.000%	178,342	5,396	5,396
Legislators	147,324	0	147,324	0.00%	100.000%	147,324	1,206	1,206
Totals	$23,604,174	$14,386,171	$9,218,003	60.95%		$9,160,971	$1,420,149	$1,411,075

Source: MSRS 2017 Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017.

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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 between the Systems' financial reporting and the State's financial statement due to the one year lag between the disclosures in Systems' Comprehensive Annual Financial Reports and the State's CAFR.

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.

As previously noted, in June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 "Financial Reporting for Pension Plans", which amends GASB Statement No. 25, and GASB Statement No. 68 "Accounting and Financial Reporting for Pensions", which amends GASB Statement No. 27. These standards set forth modifications to the financial reporting requirements of the State as it relates to pensions. These statements require changes to the financial statements, notes to the financial statements and required supplementary information. The plans implemented GASB Statement No. 67 for the year ended June 30, 2014, and the State implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" for the year ended June 30, 2015.

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.

Plan Administrator	Plans Covered
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)
Teachers Retirement Association (TRA)	Teachers Retirement Fund (TRF)
St. Paul Teachers' Retirement Fund Association	St. Paul Teachers' Retirement Fund (SPTRF)

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

Summary of State Pension Amounts
As of June 30, 2017
($'s in Thousands)

	State Administered				Non-State Administered	State Administered			
	Multiple Employer				Multiple Employer	Single Employer			
	SERF[1]	CERF[1]	GERF[1]	TRF[1]	SPTRF[1]	JRF[1]	LRF[1]	SPRF[1]	Total
State's Proportionate Share of the Net Pension Liability as an:									
Employer	$ 9,160,172	$ 1,331,563	$ 58,119	$ 888,788	$ 1,082	$ 179,129	$ 154,700	$ 492,978	$ 12,266,531
Non-Employer Contributing Entity	-	-	104,677	1,900,653	182,226	-	-	-	2,187,556
Total	$ 9,160,172	$ 1,331,563	$ 162,796	$ 2,789,441	$ 183,308	$ 179,129	$ 154,700	$ 492,978	$ 14,454,087
State's Proportionate Share % of the Net Pension Liability as of:									
Current Year Measurement Date	73.88%	99.91%	2.01%	11.69%	28.96%	100.00%	100.00%	100.00%	
Prior Year Measurement Date	73.93%	99.86%	4.18%	13.62%	29.76%	100.00%	100.00%	100.00%	
Difference between Expected and Actual Experience	$ 12,535	$ 6,788	$ 482	$ 27,324	$ -	$ 7,740	$ -	$ -	$ 54,869
Net Difference Between Projected and Actual Earnings	5,857,907	539,678	35,111	1,590,645	4,593	13,018	-	251,348	8,292,300
Changes in Assumption	403,111	43,994	18,175	120,673	16,519	8,070	-	30,436	640,978
Change in Proportionate Share	16,261	509	38,337	106,053	-	-	-	-	161,160
Contributions Subsequent to the Measurement Date	116,552	31,663	9,155	45,972	10,731	13,759	8,716	15,783	252,331
Deferred Outflows of Resources	$ 6,406,366	$ 622,632	$ 101,260	$ 1,890,667	$ 31,843	$ 42,587	$ 8,716	$ 297,567	$ 9,401,638
Difference between Expected and Actual Experience	$ 231,631	$ 610	$ 13,225	$ 78	$ 14,048	$ 2,620	$ -	$ 29,972	$ 292,184
Changes in Assumption	436,567	73,466	-	-	-	71,972	-	-	582,005
Net Difference Between Projected and Actual Earnings	-	-	-	-	-	-	147	-	147
Change in Proportionate Share	8,731	77	91,840	108,607	6,741	-	-	-	215,996
Deferred Inflows of Resources	$ 676,929	$ 74,153	$ 105,065	$ 108,685	$ 20,789	$ 74,592	$ 147	$ 29,972	$ 1,090,332
Net Pension Expense	$ 1,328,047	$ 178,518	$ 8,909	$ 415,676	$ 12,615	$ 5,720	$ 18,525	$ 68,951	$ 2,036,961

[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[1]	GERF[1]	TRF[1]	SPTRF[1]	JRF[1]	LRF[1]	SPRF[1]
Actuarial Valuation/ Measurement Date	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
Long-Term Expected Rate	7.50%	7.50%	7.50%	8.00%[2]	8.00%	7.50%	7.50%	7.50%
20 Year Municipal Bond Rate[2]	2.85%	2.85%	2.85%	3.01%	2.85%	2.85%	2.85%	2.85%
Experience Study Dates	2008 - 2014	2011 - 2015	2008 - 2014	2008 - 2014	2006 - 2011	2011 - 2015	N/A	2011 - 2015
Inflation	2.50%	2.50%	2.50%	2.75%	3.00%	2.50%	2.50%	2.50%
Salary Increases	Service Related Rates	Service Related Rates	3.50 - 11.50%	3.50 - 9.50%	4.00 - 8.90%	2.50%	4.50%	Service Related Rates
Payroll Growth	3.25%	3.25%	3.25%	3.50%	4.00%	2.50%	N/A	3.25%

(1) For SERF, GERF, 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, SPTRF, JRF, LRF, and SPRF, the RP-2000 table based on Scale AA was used. There are various adjustments in each plan to match experience.

(2) The long-term expected rate of return for Fiscal Year 2018 will change to 7.50 percent for TRF.

(3) Source: Federal Reserve Board for SERF, CERF, GERF, SPTRF, JRF, LRF and SPRF, and the Board of Governors of the Federal Reserve System for TRF.

See STATE FINANCIAL STATEMENTS in APPENDIX F Note 8 - Pension and Investment Trusts (pages F-83 through F-100) and Required Supplementary Information (see pages F-149 through F-161), for additional information on pension disclosures related to the implementation of GASB 68. The State's Fiscal Year 2017 financial statements and corresponding pension related disclosures and required supplementary information are based on the June 30, 2016 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, 2017
($'s in Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
	Rate	NPL[1]	Rate	NPL[1]	Rate	NPL[1]
SERF	3.17%	$ 12,077,217	4.17% [2]	$ 9,160,172	5.17%	$ 6,814,925
CERF[3]	3.24%	1,740,577	4.24% [2]	1,331,563	5.24%	1,008,279
GERF	6.50%	231,219	7.50%	162,796	8.50%	106,434
TRF[3]	3.66%	3,593,497	4.66% [2]	2,789,441	5.66%	2,134,564
SPTRF	7.00%	232,908	8.00%	183,308	9.00%	141,765
JRF[3]	6.50%	213,206	7.50%	179,129	8.50%	149,781
LRF[3]	1.85%	173,150	2.85% [2]	154,700	3.85%	139,340
SPRF	4.31%	648,622	5.31% [2]	492,978	6.31%	365,920

(1) Net Pension Liability.

(2) The long-term projected rate of return was used through Fiscal Years 2042, 2045, 2052, and 2052 for SERF, CERF, TRF, and SPRF, respectively. Municipal bond rates were used subsequent to these years. For LRF, the municipal bond rate was used for all years.

(3) The discount rate changed from 7.90, 6.25, 7.90, 8.00, 5.25, 3.80, and 7.90 percent for SERF, CERF, GERF, TRF, JRF, LRF, and SPRF, respectively.

(4) The discount rate for Fiscal Year 2018 will change to 5.42, 5.02, 5.12, 3.56, and 6.38 percent for SERF, CERF, TRF, LRF, and SPRF, respectively.

(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

Post-employment benefits other than pensions 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. As of July 1, 2016, there were approximately 2,400 retirees participating in the State's insurance plan under this provision.

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. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age 65. As of July 1, 2016, there were approximately 950 correctional and law enforcement retirees receiving an explicit rate subsidy. 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.

Funding Policy

The contribution requirement of plan members and the State are established and may be amended by the State legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For Fiscal Year ended June 30, 2017, the State contributed $33,002,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed $23,420,000, through their average required contribution of $589 per month for retiree-only coverage and $1,731 for retiree-family coverage. The plan is administered by the MSRS.

Annual OPEB Cost and Net OPEB Obligation

The State's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 2.85 percent discount rate. For year ending June 30, 2017, the State's ARC is $72,069,000. The following table shows the components of the State's annual OPEB cost, the amount contributed to the plan, and the changes to the State's net OPEB obligation:

Net OPEB Obligation
($'s In Thousands)

Annual Required Contributions (ARC)(1)	$ 72,069
Interest on Net OPEB Obligation (NOO) (1)	9,593
Amortization Adjustment to ARC(1)	10,516)
Annual OPEB Cost (Expense)	$ 71,146
Contributions	(33,002)
Increase in NOO	$ 38,144
NOO, Beginning Balance	$ 336,557
NOO, Ending(2)	$ 374,701

(1)Components of annual OPEB cost.
(2)Amount attributable to State's Governmental Funds, which includes the General Fund is $327,428. See page F-103 through F-106, Note 9 – Termination and Postemployment Benefits and page F-110 through F-123, Note 12 – Long-Term Liabilities – Primary Government.

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2017, 2016, and 2015 are as follows:

Net OPEB Obligation
($'s In Thousands)

Fiscal Year Ended, June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$71,146	46%	$374,701
2016	$75,641	48%	$336,557
2015	$72,065	45%	$296,900

Source: State of Minnesota Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017.

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits and the UAAL was $616,648,000. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was $3,619,205,000 and the ratio of the UAAL to the covered payroll was 17.0 percent. The next actuarial valuation will reflect June 30, 2017 numbers and will be published in the Fiscal Year 2018 comprehensive annual financial report.

New Accounting Standards Issued

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Among other changes, the new standard requires projected benefit payments to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met. The State plans to implement this new standard for Fiscal Year 2018, although the discount rate requirement is reflected in the State's comprehensive annual financial report for Fiscal Year ended June 30, 2017.

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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)

Category	Type		Principal Amount		
1	Transportation	$	163,589		
	Refunding Bonds		1,645,340		
	Various Purpose		2,151,149		
	Total Category 1			$	3,960,078
2	School Loan	$	-		
	Rural Finance Authority		44,622		
	Total Category 2			$	44,622
3	Trunk Highway	$	1,577,715		
	Trunk Highway Refunding		273,600		
	Total Category 3			$	1,851,315
	Total Outstanding as of the Date of the Bonds			$	5,856,015
	Plus Series 2018A Bonds				397,720
	Plus Series 2018B Bonds				206,000
	Plus Series 2018C Bonds				16,000
	Total Outstanding as of the Date of the Bonds - Including These Issues			$	6,475,735

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)

Purpose of Issue	Law Authorizing	Total Authorization (1)(2)	Previously Issued as Par Bonds	Previously Issued as Premium	The Bonds (3)	Remaining Authorization
Building	1999, Ch. 240	$439,212.6	$438,536.0	$0.0	$0.0	$676.6
Various Purpose	2000, Ch. 492	518,703.2	518,529.6	44.4	115.0	$14.2
Various Purpose	2002, Ch. 393	599,607.8	599,592.6	0.0	0.0	$15.2
Various Purpose	X2002, Ch. 1	15,055.0	14,755.0	0.0	0.0	$300.0
Various Purpose	X2003, Ch. 20	219,010.0	218,434.0	0.0	0.0	$576.0
Various Purpose	2005, Ch. 20	913,869.0	913,241.4	417.6	0.0	$210.0
Various Purpose	2006, Ch. 258	991,022.7	989,097.9	781.1	0.0	$1,143.7
Various Purpose	X2007, Ch. 2	41,320.0	40,926.0	394.0	0.0	$0.0
Trunk Highway	2008, Ch. 152	1,782,245.9	1,593,893.0	0.0	96,300.0	$92,052.9
Various Purpose	2008, Ch. 179	789,746.4	785,466.9	2,480.1	0.0	$1,799.4
Trunk Highway	2009, Ch. 36	39,942.0	39,937.0	0.0	0.0	$5.0
Various Purpose	2009, Ch. 93	255,463.0	250,275.2	3,359.8	0.0	$1,828.0
Various Purpose	2010, Ch. 189	707,588.2	692,808.8	12,130.2	0.0	$2,649.2
Trunk Highway	2010, Ch. 189	24,952.0	24,952.0	0.0	0.0	$0.0
Various Purpose	X2010, Ch. 1	31,122.9	26,718.6	2,084.4	800.0	$1,519.9
Various Purpose	X2011, Ch. 12	549,785.5	510,718.8	23,231.3	0.0	$15,835.4
Trunk Highway	2012, Ch. 287	17,613.0	17,250.0	0.0	170.0	$193.0
Various Purpose	2012, Ch. 293	563,641.9	509,504.4	46,637.6	300.0	$7,199.9
Various Purpose	X2012, Ch. 1	52,914.5	44,468.8	6,331.1	700.0	$1,414.6
Trunk Highway	X2012, Ch. 1	34,064.1	33,605.0	0.0	0.0	$459.1
Trunk Highway	2013, Ch. 117	300,300.0	274,705.1	0.0	10,750.0	$14,844.9
Various Purpose	2013, Ch. 136	178,795.0	147,082.5	19,417.5	0.0	$12,295.0
Various Purpose	2014, Ch. 294	892,984.0	713,945.8	139,484.2	11,200.0	$28,354.0
Various Purpose	X2015 Ch. 5	190,697.0	139,375.3	29,394.6	2,000.0	$19,927.1
Trunk Highway	X2015 Ch. 5	140,140.0	119,798.0	0.0	8,400.0	$11,942.0
Various Purpose	2017, Ch. 4	35,035.0	29,262.6	737.4	5,035.0	$0.0
Trunk Highway	X2017, Ch. 3	940,940.0	0.0	0.0	85,000.0	$855,940.0
Various Purpose	X2017, Ch. 8	1,038,510.0	183,776.6	35,723.4	271,800.0	$547,210.0
Various Purpose	2018, Ch. 214	893,759.0	0.0	0.0	185,900.0	$707,859.0
Trunk Highway	2018, Ch. 214	416,608.0	0.0	0.0	5,380.0	$411,228.0
Totals		$13,614,647.9	$9,870,656.9	$322,648.7	$683,850.0	$2,737,492.2

(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)

	Original Principal				Outstanding Principal 06/30/2018		Outstanding Principal as of Date of Issue	
Bond Issue	Various Purpose	Trunk Highway	Final Maturity after Refunding	Interest Rate Range Outstanding	Various Purpose	Trunk Highway	Various Purpose	Trunk Highway
Series Dated April 25, 2007 (Refunding)	264,050	-	2018	5.00%	8,945	-	-	-
Series 2008C August 5, 2008 (Refunding)	155,415	-	2019	5.00%	31,785	-	15,865	-
Series 2009A January 29, 2009	325,000	-	2019	5.00%	31,835	-	31,835	-
Series 2009B January 29, 2009	-	70,000	2019	3.00% - 4.00%	-	6,915	-	6,915
Series 2009D August 26, 2009	192,275	-	2019	4.00% - 5.00%	18,880	-	9,440	-
Series 2009E August 26, 2009	-	80,000	2019	4.50% - 5.00%	-	8,000	-	4,000
Series 2009F August 26, 2009 (Refunding)	297,750	-	2021	4.00% - 5.00%	92,060	-	65,390	-
Series 2009G August 26, 2009 (Refunding)	-	28,360	2021	3.00% - 5.00%	-	9,535	-	6,755
Series 2009H November 5, 2009	443,000		2029	5.00%	76,555	-	76,555	-
Series 2009I November 5, 2009		25,000	2019	3.00% - 3.25%	-	3,000	-	3,000
Series 2009K November 5, 2009 (Refunding)	100,395		2022	5.00%	35,230	-	35,230	-
Series 2010A August 19, 2010	635,000		2020	4.00% - 5.00%	94,575	-	63,050	-
Series 2010B August 19, 2010		225,000	2030	5.00%	-	146,250	-	135,000
Series 2010D September 29, 2010 (Refunding)	687,115		2024	2.00% - 5.00%	277,135	-	232,425	-
Series 2010E September 29, 2010 (Refunding)		220,670	2024	3.00% - 5.00%	-	103,550	-	86,860
Series 2011A October 12, 2011	445,000		2031	3.00% - 5.00%	279,055	-	279,055	-
Series 2011B October 12, 2011		320,000	2031	4.00% - 5.00%	-	224,000	-	224,000
Series 2012A August 16, 2012	422,000		2032	2.50% - 5.00%	214,010	-	195,575	-
Series 2012B August 16, 2012		234,000	2032	2.00% - 5.00%	-	175,500	-	163,800
Series 2013A August 15, 2013	273,350		2033	4.00% - 5.00%	218,670	-	205,000	-
Series 2013B August 15, 2013		200,000	2033	4.00% - 5.00%	-	160,000	-	150,000
Series 2013C August 15, 2013 (Taxable)	5,000		2018	2.50%	5,000	-	-	-
Series 2013D November 6, 2013	283,820		2033	3.00% - 5.00%	227,940	-	227,940	-
Series 2013E November 6, 2013		112,000	2033	4.00% - 5.00%	-	89,600	-	89,600
Series 2013F November 6, 2013 (Refunding)	373,940		2026	3.125% - 5.00%	311,330	-	311,330	-
Series 2014A August 21, 2014	429,670		2034	5.00%	365,785	-	344,490	-
Series 2014B August 21, 2014		288,000	2034	3.00% - 5.00%	-	244,800	-	230,400
Series 2014C August 21, 2014 (Taxable)	26,040		2033	1.25% - 3.75%	22,395	-	21,180	-
Series 2014D August 21, 2014 (Taxable Refunding)	28,210		2032	1.39% - 4.00%	13,550	-	12,510	-
Series 2014E August 21, 2014 (Refunding)		123,315	2026	2.00% - 4.00%	-	99,700	-	86,630
Series 2015A August 19, 2015	368,225		2035	5.00%	331,845	-	313,655	-
Series 2015B August 19, 2015		310,000	2035	2.95% - 5.00%	-	279,000	-	263,500
Series 2015C August 19, 2015 (Taxable)	7,200		2025	1.25% - 3.00%	5,760	-	5,040	-
Series 2015D August 19, 2015 (Refunding)	376,655		2027	5.00%	376,655	-	338,255	-
Series 2015E August 19, 2015 (Refunding)		14,900	2027	2.00% - 5.00%	-	13,695	-	12,245
Series 2016A August 11, 2016	265,890		2036	5.00%	252,820	-	239,750	-
Series 2016B August 11, 2016		215,000	2036	2.25% - 5.00%	-	204,250	-	193,500
Series 2016C August 11, 2016 (Taxable)	7,500		2021	1.40%	7,500	-	7,500	-
Series 2016D August 11, 2016 (Refunding)	310,565		2029	2.25-5.00%	310,565	-	310,565	-
Series 2017A October 11, 2017	312,295		2037	5.00%	312,295	-	312,295	-
Series 2017B October 11, 2017		114,000	2037	2.25% - 5.00%	-	114,000	-	114,000
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%	323,770	-	323,770	-
Series 2017E October 11, 2017 (Refunding)	-	81,110	2029	3.00% - 5.00%	-	81,110	-	81,110
Series 2018A August 21, 2018	397,720		2038	5.00%	-	-	397,720	-
Series 2018B August 21, 2018		206,000	2038	3.00% - 5.00%	-	-	-	206,000
Series 2018C August 21, 2018 (Taxable)	16,000		2028	3.39%	-	-	16,000	-
*Totals for Date:	**$ 7,799,850**	**$ 2,867,355**			**$ 4,272,945**	**$ 1,962,905**	**$ 4,418,420**	**$ 2,057,315**

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)(2)]

($'s in Thousands)

Fiscal	General Fund			Trunk Highway Fund		
Year	Principal	Interest	Total	Principal	Interest	Total
2019	$ 147,915	$ 128,665	$ 276,580	$ 42,370	$ 49,146	$ 91,516
2020	402,860	172,040	574,900	143,210	71,403	214,613
2021	367,160	153,075	520,235	141,615	64,897	206,512
2022	362,160	135,044	497,204	139,740	58,459	198,199
2023	358,990	117,635	476,625	136,605	52,031	188,636
2024	307,220	101,452	408,672	135,765	45,800	181,565
2025	293,310	86,767	380,077	128,445	39,938	168,383
2026	269,055	73,634	342,689	120,925	34,475	155,400
2027	241,595	61,909	303,504	112,735	29,482	142,217
2028	231,045	50,717	281,762	109,770	24,960	134,730
2029	193,660	41,149	234,809	108,405	20,809	129,214
2030	177,185	33,539	210,724	105,130	16,955	122,085
2031	158,060	26,582	184,642	100,900	13,201	114,101
2032	129,770	20,348	150,118	89,650	9,693	99,343
2033	109,525	14,986	124,511	73,650	6,802	80,452
2034	96,775	10,211	106,986	61,950	4,344	66,294
2035	67,935	6,222	74,157	46,350	2,421	48,771
2036	46,640	3,358	49,998	31,950	1,180	33,130
2037	28,455	1,481	29,936	16,450	425	16,875
2038	15,385	385	15,770	5,700	89	5,789
	$ 4,004,700	$ 1,239,199	$ 5,243,899	$ 1,851,315	$ 546,510	$ 2,397,825

(1) Totals do not include the Bonds.
(2) FY 2019 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 the STATE FINANCIAL STATEMENTS in APPENDIX F.

Note 10 – Long-Term Commitments (see page F-105)
Note 11 – Operating Lease Agreements (see page F-106)
Note 12 – Long-Term Liabilities (see pages F-107 through F-120).

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	
2008	409,426	52,170	41,524	$503,120	
2009	452,978	59,542	47,375	$559,895	
2010	429,123	70,542	50,783	$550,448	
2011	398,799	45,225	41,145	$485,169	
2012	190,799	72,601	74,703	$338,103	(3)
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	563,123	211,009	42,801	$816,933	
2019 (est)	575,400	216,279	44,952	$836,631	
2020 (est)	573,104	223,700	50,101	$846,905	

(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 transfers for FY 2012 and FY 2013 are lower than prior 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 2018 Forecast and reflects the State's 2018 Fiscal Year.

As of February 28, 2018, 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: 2.58 percent

Guideline #2: Total principal outstanding (issued, and authorized but unissued) as a percent of State personal income: 3.85 percent

Guideline #3: Of the State's general obligation bonds outstanding on June 30, 2017, 41.1 percent were scheduled to mature within five years and 72.1 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds outstanding on June 30, 2018, 42.1 percent were scheduled to mature within five years and 73.4 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 2017 valuation, was estimated by the Commissioner of Revenue to be $663,034,833,000. 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
2000	$260,679,384	$4,003,571	$264,682,955	9.68%
2001	288,122,488	4,114,925	292,237,413	10.41
2002	320,941,481	4,263,859	325,205,340	11.28
2003	359,163,493	4,524,447	363,687,940	11.83
2004	407,146,983	4,713,782	411,860,765	13.25
2005	459,506,046	4,807,666	464,313,712	12.74
2006	513,771,733	4,965,234	518,736,967	11.72
2007	556,559,833	5,051,289	561,611,123	8.27
2008	576,128,196	5,258,865	581,387,062	3.52
2009	577,697,830	5,510,840	583,208,669	0.31
2010	554,221,643	6,162,283	560,383,926	(3.91)
2011	515,531,688	6,815,342	522,347,030	(6.79)
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	652,612,281	10,422,552	663,034,833	4.89

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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 2009 Legislature authorized, in Minnesota Statutes, Section 16A.81, the issuance of State Certificates of Participation ("COPs"). These COPs were issued to provide financing for (i) the development, acquisition, installation and implementation of a new statewide accounting and procurement system; (ii) the acquisition, development and implementation of an integrated tax software project; and (iii) the payment of all fees and expenses incurred in connection to the issuance of the COPs. In December, 2012 MMB prepaid $11,495,000 from reverted proceeds that reduced the COP's outstanding balance. As of the date of this Official Statement, there are $8,540,000 of the COPs outstanding.

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 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 $493,195,000 of State Appropriation Refunding Bonds outstanding.

The 2012 Legislature authorized, in Minnesota Statutes, Section 16A.965, the issuance of State Appropriation Bonds. MMB issued $462,065,000 aggregate principal amount State General Fund Appropriation Bonds, Tax-Exempt Series 2014A and Taxable Series 2014B (the "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, Section 473J. As of the date of this Official Statement, there are $427,675,000 of the 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 the Legislative Office Facility that will provide office and hearing room space as well as parking for the Legislature. The same legislation also authorized the Commissioner of Management and Budget 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 $74,225,000 of the Certificates of Participation outstanding. The lease purchase agreement must not be terminated, except for non-appropriation in respect of lease rental payments. The 2017 Legislature appropriated funds sufficient to pay the lease rental payments of the project through the end of the Current Biennium.

Pursuant to the Minnesota Statutes, Section 16A.967, the Commissioner of Management and Budget 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 $22.5 million in project costs. The State issued $11,790,000 of State Appropriation Bonds in November 2016 and an additional $7,570,000 of State Appropriation Bonds in November 2017. As of the date of this Official Statement, there are $17,560,000 of the State Appropriation Bonds outstanding.

University of Minnesota. The Legislature has 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 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 $75,750,000 of the U of M State Appropriation Bonds outstanding.

The Minnesota Legislature has 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, for up to 25 years after certification of the last facility 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. As of the date of this Official Statement, there are $165,860,000 of the State secured appropriation 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 $2.4 million 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 $23,375,000 of the MHFA nonprofit housing bonds outstanding.

In 2012, the Legislature authorized MHFA to issue up to $30 million of housing infrastructure bonds and appropriated from the General Fund up to $2.2 million 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 million 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 $24,455,000 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 and $12,690,000 in October 2017. As of the date of this Official Statement, there are $80,935,000 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. As of the date of this Official Statement, there are $6,775,000 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 has not yet issued any of these housing infrastructure bonds. 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 anticipates an additional housing infrastructure bond sale to occur in September 2018 under one or more of these authorizations. See "Future Financings" in this Official Statement.

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 the date of this Official Statement, $34,361,827 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 the date of this Official Statement, $12,779,959 of principal is outstanding and unpaid under the GESP program.

Lease Purchase Financing For Real Estate

On March 1, 2000, the City of Bemidji and the State entered into a Lease and Purchase Option Agreement. Under the Lease and Purchase Option Agreement, the City of Bemidji issued $8,275,000 of bonds to finance the design of and to construct, equip, and furnish a satellite laboratory in the City of Bemidji for use by the Minnesota Bureau of Criminal Apprehension. In September 2008, the City of Bemidji issued refunding bonds for this project and in October 2016, the City of Bemidji completed a current refunding in the amount of $2,910,000 to defease the 2008 bonds. As of the date of this Official Statement, there are $2,350,000 of the bonds outstanding. Rental payments paid by the State will be used to pay debt service on the bonds. The savings on the debt service due to the refunding bond issue will reduce the State's annual rent payments. 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 from the General Fund up to $700,000 per year in each of 20 years, beginning in 2002.

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 $77,100,000 of Port Authority refunding bonds outstanding. The nature of the State's obligation to make rental payments under these Lease and Option to Purchase Agreements is the same as the Lease and Option to Purchase Agreement with the City of Bemidji described above. The Legislature appropriated an annual rental payment from the General Fund up to $13.5 million 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 Management and Budget, 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 the date of this Official Statement, there are approximately $9.6 million 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 the date of this Official Statement, 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 2046, is approximately $13.1 billion. 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 the date of this Official Statement is currently estimated at $901.2 million, with the maximum amount of principal and interest payable in any one month being $833.5 million. 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 $32,120,000 of the bonds outstanding. Laws 2006, Chapter 259, Article 12, Section 15, Minnesota Statutes, Section 298.2211 and an Order of the IRRRB Commissioner authorized the issuance of $7,860,000 in refunding revenue bonds. The proceeds of the bonds were used to refund the remaining outstanding balance of $8,310,000 of the Educational Facilities Revenue Bonds, Series 2006. As of the date of this Official Statement, there are $4,675,000 of the refunding 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 Management and Budget, 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 Management and Budget 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 Management and Budget 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 the date of this Official Statement, the total amount of principal on bonds plus interest on the bonds enrolled in the program, through the year 2049, is approximately $589.4 million. 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 2019 the total amount of principal and interest outstanding as of the date of this Official Statement is $52.7 million with the maximum amount of principal and interest payable in any one month currently estimated at $24.0 million.

On August 1, 2013, the State made a $603,000 debt service payment under the program on behalf of the City of Williams (the "City") with respect to the $600,000 City of Williams, Minnesota General Obligation Grant Anticipation Notes, Series 2010. The City and MPFA entered into a Credit Enhancement Program Loan Agreement reflecting the City's obligation to repay the $603,000 with interest to the State. On March 23, 2018, the City made final payment to the State which included the outstanding principal balance of $47,544.46 and all interest accrued thereon of $70.41. 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.

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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..........................	9	2049	$ 39,745	$ 34,115
Residential Housing Finance.....	38	2048	1,755,580	1,147,030
Multifamily Housing.................	1	2051	15,000	13,680
	48		$1,810,325	$1,194,825

The MHFA has also issued and there were outstanding six series of its conduit multifamily revenue bonds in the approximate aggregate principal amount of $93,058,017 as of June 30, 2018, forty-six series of its Homeownership Finance Bonds in the approximate aggregate principal amount of $1,398,793,935 as of July 1, 2018, and three series of its Home Ownership Mortgage-backed Exempt Securities in the approximate aggregate principal amount of $18,472,310 as of June 30, 2018. The MHFA has also issued an Index Bank Note, in a cumulative aggregate principal amount not to exceed $200,000,000 and a maximum principal outstanding of $80,000,000, no portion of which is outstanding as the date of this Official Statement. 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 $1,108,580,000. 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 Appropriation" 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 $463,715,000 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 $229,840,000 tax exempt bonds and $51,400,000 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 guarantees have been issued to date with outstanding balances of $2,523,372 and the other for $4,960,000. The guarantees 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 $929,244,593 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 no 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 $34,910,000 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 $70,855,000 Clean Water Revolving Fund Revenue Bonds outstanding, $738,945,000 State Revolving Fund Revenue bonds outstanding and $1,645,000 Transportation Revolving Loan Fund Revenue Bonds outstanding, for a total outstanding principal amount of $811,445,000. 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 $287,419,993 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 million 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 Management and Budget 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 $12,015,000 of Minnesota State Retirement System bonds outstanding.

The 2005 Minnesota Legislature authorized, in Minnesota Statutes, Section 403.275, the issuance of up to $62.5 million of State revenue bonds. These revenue bonds were issued to finance Phase 3 of a statewide radio system that enables emergency response organizations to utilize a single, integrated, and highly structured digital radio system. The 2007 Legislature authorized an additional $186 million of revenue bonds to complete the statewide radio system. The debt service on the revenue bonds is paid solely from the revenues derived from a fee assessed to each customer of a wireless or wire-line service provider connected to the public switched telephone network that furnishes service capable of originating a 911 emergency telephone call. The Commissioner of Management and

Budget sold $35,000,000 of the revenue bonds in November 2006, $42,205,000 of revenue bonds in November 2008, $60,510,000 of revenue bonds in October 2009 and $60,360,000 in revenue bonds in September 2011. In November 2016, MMB issued $91,715,000 of 911 Revenue Refunding Bonds to defease, together with funds on hand, the November 2006 bonds and refund, on an advance refunding basis, the November 2008, October 2009 and September 2011 bonds. As of the date of this Official Statement, there are $51,965,000 of the 911 Revenue Refunding Bonds outstanding.

The 2018 Minnesota Legislature authorized in Laws, Chapter 214, Article 6, Section 1, to be codified as Minnesota Statutes, Section 16A.969, the Commissioner of MMB to issue state appropriation bonds for the public purposes established by the Minnesota Constitution, article XI, section 14 and Minnesota Statutes, Chapter 116P, creating a permanent environmental and natural resources trust fund for the protection, conservation, preservation, and enhancement of the state's air, water, land, fish, wildlife, and other natural resources. The environmental and natural resources trust fund is funded by a portion of state lottery proceeds as well as earned investment income. The 2018 Legislature authorized MMB to issue state appropriation bonds to fund up to $98,000,000 in project costs for a number of capital projects meeting the public purposes of the fund, and appropriated available environmental trust fund moneys on a continuing basis for the payment of debt service. MMB anticipates selling approximately $98,000,000 of these appropriation bonds in fall 2018.

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APPENDIX D

PROJECT DESCRIPTION

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PROJECT DESCRIPTION

Set forth below are the titles or names of the projects or types of projects eligible to be financed in whole or in part from the proceeds of the Bonds, and the total amount appropriated by the State Legislature for this purpose. In the Order authorizing the issuance of the Bonds the Commissioner has reserved the right for a specified period to reassign Bonds issued to legislative authorizations and purposes other than those listed in the section hereof entitled "General Obligation Bonds Authorized, Issued and Unissued" and on page C-2 of APPENDIX C.

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
2000, Chapter 492				
	BWSR	Statewide	RIM Conservation Reserve	20,000
2008, Chapter 152				
	Transportation	Statewide	State Road Construction	1,717,694
	Transportation	Statewide	Trunk Highway Bond Sale Expense	1,800
Special Session 2010, Chapter 1				
	BWSR	Statewide	RIM Conservation Reserve	10,000
	DNR	Statewide	Flood Hazard Mitigation	10,000
2012, Chapter 287				
	MnDOT	Rochester	Maintenance Facility	16,100
2012, Chapter 293				
	U of M	Itasca	Facility Improvements	4,060
	MN State	Systemwide	HEAPR	20,000
	Perpich Ctr Arts	Golden Valley	Road Repair	99
	DNR	Statewide	Flood Hazard Mitigation	30,000
	DNR	Statewide	Dam Repair, Reconstruction and Removal	3,000
	DNR	Statewide	Roads and Bridges	2,000
	DNR	Statewide	Parks and Trails Renewal and Development	4,000
	DNR	Lake Zumbro	Sedimentation Dredging	3,000
	BWSR	Statewide	RIM Conservation Reserve	6,000
	BWSR	Statewide	Wetland Restoration -Public Road Projects	6,000
	Military Affairs	Camp Ripley	State Education Complex Addition	19,500
	MnDOT	Statewide	Local Bridge Replacement/Rehab	30,000
	MnDOT	Statewide	Greater Minnesota Transit Assistance	6,400
	Metro Council	Systemwide	Metropolitan Regional Parks	4,586
	DHS	Systemwide	Asset Preservation	2,000
	Vets Affairs	Systemwide	Asset Preservation	3,000
	Corrections	Systemwide	Asset Preservation	5,000
	Corrections	Stillwater	Well and Water Treatment Facility	3,391
	DEED	Greater MN	Bus. Dev. Infrastructure Grant Prog.	6,000
	DEED	Statewide	Business Development Capital Project Grant Program	47,500
	DEED	Austin	Research and Technology Center	13,500
Special Session 2012, Chapter 1				
	DNR	Systemwide	Facility and DNR Damage	6,855

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DNR	Systemwide	Flood Hazard Mitigation Grants	9,000
	BWSR	Statewide	RIM Conservation Easements	1,500
	MnDOT	Systemwide	Trunk Highways and Bridges	35,000
2013, Chapter 117				
	MnDOT	Systemwide	Corridors of Commerce	300,000
	MMB	Statewide	Bond Sale Expenses	300
2014, Chapter 294				
	U of M	Systemwide	HEAPR	42,500
	U of M	Systemwide	Research Laboratory Improvement Fund	8,667
	MN State	Systemwide	HEAPR	42,500
	MN State	Bemidji	Business Bldg Ren and Demo	13,790
	MN State	Mankato	Clinical Sciences Facility	25,818
	MN State	Rochester	Rochester C&TC Design, Post-Demolition	1,000
	MN State	Thief River Falls	C&TC - Aviation Maintenance Facility	5,864
	MN State	Winona	Winona State - Education Village	5,902
	MN State	St. Cloud	St. Cloud State Student Health & Academic Ren.	865
	Education	Red Lake	Red Lake ISD #38 Capital Loan	5,491
	Education	Statewide	Library Accessibility and Improvement Grants	2,000
	MN Academies	Faribault	New Dormitory	10,654
	MN Academies	Faribault	Asset Preservation	700
	Ctr for Arts	Golden Valley	Asset Preservation	2,000
	DNR	Systemwide	Asset Preservation	10,000
	DNR	Systemwide	Buildings and Facilities Development	2,000
	DNR	Systemwide	Flood Hazard Mitigation	4,500
	DNR	Systemwide	Dam Repair / Reconstruction / Removal	6,500
	DNR	Systemwide	Reforestation and Stand Improvement	2,963
	DNR	Systemwide	Vermilion State Park Development	14,000
	DNR	Systemwide	Fish Hatchery Improvements	2,000
	DNR	Systemwide	State Parks and Trails Acquisition and Devel.	17,667
	DNR	St. Paul	Fort Snelling Upper Post Paths	500
	DNR	Grant County	Elbow Lake to Pomme de Terre Lake	100
	DNR	Olmsted Cty	Lake Zumbro Reclamation	500
	DNR	Sartell	Central Minnesota Regional Parks	500
	PCA	Statewide	Capital Assist Program	2,625
	BWSR	Statewide	Reinvest in Minnesota Reserve Program	6,000
	BWSR	Statewide	Local Roads Wetlands Replacement Program	2,000
	Agriculture	St. Paul	Agricultural Lab Sample Storage Room	203
	MN Zoo	Apple Valley	Heart of the Zoo II	5,000
	MN Zoo	Apple Valley	Asset Preservation	7,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Administration	St. Paul	Capitol Restoration Continue	126,300
	Administration	St. Paul	Hmong Veterans Memorial	450
	Administration	St. Paul	Workers Memorial	250
	Public Safety	Cottage Grove	Public Safety Training Center	1,460
	Public Safety	Montgomery	Public Safety Facility	220
	Military Affairs	Brooklyn Park	Addition/Renovation	1,244
	MnDOT	Statewide	Local Road Improvement Fund Grants	24,356
	MnDOT	Systemwide	Greater Minnesota Transit	1,500
	MnDOT	Statewide	Highway/Rail Grade Crossings	2,000
	MnDOT	Statewide	Port Development Assistance	2,000
	MnDOT	International Falls	Airline Terminal	2,200
	Metro Council	Metropolitan	Regional Parks	4,000
	Metro Council	Inver Grove Hgts	Heritage Village Park	2,000
	Metro Council	Maplewood	Fish Creek Greenway Corridor	318
	Metro Council	Minneapolis	Park Sculpture Garden	8,500
	Metro Council	St. Paul	Como Regional Park Access	5,400
	Metro Council	Hastings	Hastings Bridge Trail	1,600
	Metro Council	West St. Paul	North Urban Regional Trail Bridge	2,000
	DHS	St. Peter	Security Hospital - Design, Construct, Remodel	56,317
	DHS	St. Peter	MSOP - Remodel, Construct	7,405
	DHS	Systemwide	Asset Preservation	3,000
	DHS	Systemwide	Early Childhood Facilities	6,000
	DHS	St. Louis County	AEOA & RMH Office Building	3,000
	Vets Affairs	Systemwide	Asset Preservation	2,000
	Corrections	Systemwide	Asset Preservation	5,500
	Corrections	Shakopee	Perimeter Security Fence	5,381
	DEED	Statewide	Business Development Public Infrastructure	4,000
	DEED	Alexandria	Jefferson High School Redevelopment	1,400
	DEED	Clara City	South Hawk Creek Business Park	748
	DEED	Cosmos	Municipal Building Project	600
	DEED	Litchfield	Power Generation Predesign	250
	DEED	Minneapolis	Nicollet Mall Revitalization	21,500
	DEED	Minneapolis	Park Brd Brian Coyle Comm. Ctr	330
	DEED	Minneapolis	Hennepin Center for the Arts	550
	DEED	Park Rapids	Upper Mississippi Center	2,500
	DEED	St. Paul	Children's Museum	6,515
	DEED	Thief River Falls	Airport, Elim Wastewater Ponds	650
	DEED	Virginia	PUC - Expand Utilities and Trails	19,500
	PFA	Statewide	Wastewater Infrastructure Funding	18,333
	PFA	Big Lake	Sanitary Dist. - Wastewater Collection	4,500
	PFA	Koochiching Cty	Clean Water Project	8,567
	PFA	Rice Lake	East Calvary Water Main Replacement	1,168
	PFA	Truman	Storm Water Project	1,425

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MHFA	Statewide	Public Housing Rehabilitation	20,000
	Historical Soc.	Elk River	Oliver Kelley Farm Historic Site Visitor Center	10,562
	Historical Soc.	Systemwide	Historic Sites Asset Preservation	1,440
	MMB	Statewide	Bond Sale Expenses	900
Special Session 2015, Chapter 5				
	U of M	Willmar	Poultry Testing Laboratory	8,529
	U of M	St. Paul	Veterinary Isolation Facility Replacement	18,000
	MN State	Minnesota West CTC	Classrooms, Power line Facility & Geothermal	3,267
	MN State	Dakota County TC	Transportation and Emerging Tech Reno.	7,733
	MN State	Anoka TC	Manufacturing Tech Hub & Auto Tech Lab Reno.	2,114
	MN State	St. Paul College	Health & Science Alliance Center Addition	18,829
	DNR	Ottertail County	Flood Hazard Mitigation	10,000
	DNR	Statewide	Flood Hazard Mitigation	13,549
	PCA	Clay, McLeod & Dodge	County Capital Assistance Program	1,276
	PCA	Polk County	County Capital Assistance Program	8,000
	PCA	Statewide	Superfund Drinking Water Program	1,750
	BWSR	MN River Basin	Flood Mitigation	1,000
	Administration	St. Paul	Capitol Restoration - Out of Scope Items	26,724
	Administration	St. Paul	Capitol Restoration - Security Items	6,200
	MnDOT	Statewide	Local Bridge Program	7,410
	MnDOT	Statewide	Local Road Program	4,290
	MnDOT	Willmar	Local Road Program	3,770
	MnDOT	MN Valley RRA	Bridge Rehabilitation Grant	1,000
	MnDOT	Koochiching Cty	Railroad Grade Crossing Grant	460
	MnDOT	Richfield	77th Street Underpass Grant	10,000
	MnDOT	Statewide	Trunk Highway Bonding	140,000
	Vets Affairs	Minneapolis	Veterans Home Bridge	650
	Corrections	St. Louis County	Northeast Regional Corrections Center	1,200
	DEED	Greater Minnesota	Business Development Public Infrastructure Grants	1,000
	DEED	Statewide	Transportation Economic Development Grants	2,000
	PFA	Statewide	Wastewater Infrastructure Fund	10,000
	MMB	Statewide	Bond Sale Expenses	180
	MMB	Statewide	Trunk Highway Bond Sale Expenses	140
	DNR	Systemwide	DNR Facility and Natural Resource Damage Repair	2,140
	DNR	Statewide	Flood Hazard Mitigation Grants	2,515
	BWSR	Statewide	RIM Conservation Easements	4,700
	DEED	Steele County	Public works Building Grant	4,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MMB	Statewide	Bond Sale Expenses	11
2017, Chapter 4	RFA	Statewide	Rural Finance Authority Loans	35,000
	MMB	Statewide	Bond Sale Expenses	35
Special Session 2017, Chapter 3				
	MnDOT	Statewide	Corridors of Commerce Trunk Highway	300,000
	MnDOT	Statewide	Trunk Highway Project	640,000
	MMB	Statewide	Bond Sale Expense	940
Special Session 2017, Chapter 8				
	Administration	St. Paul	Centennial Parking Ramp Structural Repairs	10,878
	Administration	Systemwide	Asset Preservation	5,000
	Administration	St. Paul	Monuments and Memorials Repairs	350
	Corrections	Systemwide	Asset Preservation	20,000
	Corrections	St. Cloud MCF	Phase 2 -Health Services and Loading Dock	19,000
	Corrections	Arrowhead	NERCC Vocational Programming Improvements	600
	Education	Statewide	Library Construction Grants	2,000
	Education	Olmsted County	Dyslexia Institute of MN	1,500
	DEED	South Minneapolis	Asset Preservation: Workforce Center	1,342
	DEED	Statewide	Transportation Economic Dev. Program	3,500
	DEED	Statewide	Business Dev. Public Infrastructure	12,000
	DEED	Statewide	Innovative Business Dev. Public Infrastructure Grant Program	1,158
	DEED	Hermantown	Arrowhead Health Regional Wellness Center	8,000
	DEED	LaSalle	Community Center	100
	DEED	Virginia	Miners Memorial Community Center Upgrade and Expansion	12,000
	DEED	Litchfield	Phase 2 Power Generation Improvements	4,000
	DEED	Chisago County	Public Safety Center - Phase II	3,000
	DEED	St. Paul	Minnesota Museum of American Art	6,000
	DEED	St. Paul	Science Museum of Minnesota Building Preservation	13,000
	DEED	Bertha-Hewitt	Eagle Bend High School Demolition	1,500
	DEED	Minneapolis	Norway House	5,000
	DEED	Minneapolis	Pioneers and Soldiers Cemetery Fence Restoration Project	1,029
	DEED	Mountain Iron	Enterprise Drive North	400
	DEED	Red Wing	River Town Renaissance	4,400
	DEED	Waseca	Sports Field	375

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DEED	St. James	Highway 4 and Allied projects	5,943
	Historical Soc.	St. Paul	Historic Fort Snelling Visitor Center	4,000
	Historical Soc.	Systemwide	Historic Sites Asset Preservation	2,500
	MHFA	Statewide	Public Housing Rehabilitation	10,000
	DHS	Systemwide	MN Security Hospital Phase 2	70,255
	DHS	Anoka	RTC Safety and Security Renovations	2,250
	DHS	Systemwide	Child and Adolescent Behavioral Health Services Facility	7,530
	DHS	Hennepin Cty	Regional Medical Examiner Facility	2,680
	DHS	St. Paul	Dorothy Day Revision Phase 2	12,000
	DHS	Carver Cty	Residential Crisis Stabilization Center	1,250
	Metro Council	Systemwide	Metropolitan Regional Parks	5,000
	Metro Council	Systemwide	Orange Line BRT	12,100
	Metro Council	Systemwide	Inflow/Infiltration Grant Program	3,739
	Metro Council	Bloomington	Mall of America Transit Station	8,750
	Metro Council	St. Paul	Como Zoo Habitat Preservation Exhibit Renovation	15,000
	Metro Council	West St. Paul	River to River Regional Greenway	200
	Metro Council	White Bear Lake	Trails	255
	Military Affairs	Systemwide	Asset Preservation	2,500
	MMB	Statewide	Bond Sale Expense	1,039
	MN State	Systemwide	HEAPR	25,000
	MN State	North Mankato	STEM and Healthcare Design and Renovation	9,600
	MN State	Fergus Falls	Center for Student and Workforce Success Design and Renovation	978
	MN State	Wadena	Library and Student Development Design and Renovation	820
	MN State	East Grand Forks	Laboratory Design and Renovations	826
	MN State	Hibbing	Campus Reconfiguration	11,223
	MN State	Winona	Education Village Phase 2, Renovation and Demolition	25,306
	MN State	St. Cloud	Student Health and Academic Renovation	18,572
	MN Zoo	Apple Valley	Asset Preservation	4,000
	MN.IT Services	Statewide	Repurpose of State-Office Data Center Facilities	1,432
	DNR	Systemwide	Asset Preservation	15,000
	DNR	Systemwide	Flood Hazard Mitigation Grant Assistance Program	7,305

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DNR	Cedar River	Cedar River Watershed District - Flood Hazard Mitigation Grant	1,700
	DNR	Browns Valley	Flood Hazard Mitigation Grant	750
	DNR	Ortonville	Flood Hazard Mitigation Grant	1,800
	DNR	Statewide	Emergency Dam Safety Repair, Reconstruction and Removal	4,400
	DNR	Lanesboro	Lanesboro Dam	4,000
	DNR	Pelican Rapids	Pelican Rapids Dam	500
	DNR	Pine River	Norway Lake	200
	DNR	Yellow Medicine Cty	Canby R-6	200
	DNR	St. Louis County	Little Stone Lake	100
	DNR	Dakota Cty	Byllesby Dam	6,000
	DNR	Systemwide	State Land Reforestation and Stand Improvement	1,000
	DNR	Systemwide	Glacial Lakes Trail	2,590
	DNR	Systemwide	Heartland Trail	3,300
	DNR	Systemwide	Cuyuna State Recreation Area	3,600
	DNR	Little Falls	Camp Ripley/Veterans State Trail	1,600
	DNR	Lake Vermillion	Soudan State Park	3,500
	DNR	Systemwide	Mill Towns State Trail	328
	DNR	Systemwide	Gitchi-Gami State Trail	3,130
	DNR	St. Paul	Shade Tree Reforestation	1,500
	DNR	Lake County	Prospectors ATV Trail System	1,000
	DNR	Morrison County	Soo Line Trail - Bridge Pier Restoration Project	400
	DNR	Champlin	Mill Pond Restoration	3,300
	PCA	St. Louis River	St. Louis River Area of Concern	25,410
	PCA	Statewide	Closed Landfill Construction	11,350
	PCA	Polk Cty	Capital Assistance Program	9,250
	PFA	Statewide	State Matching Funds EPA SRF Capitalization Grants	17,000
	PFA	Statewide	Wastewater Infrastructure Funding Program	40,000
	PFA	Statewide	Drinking Water Projects	15,000
	PFA	Statewide	Water Infrastructure Initiative	33,737
	PFA	Big Lake	Sewer System and Force Main	1,200
	PFA	Clearbrook	Water Plant Curb and Gutter	850
	PFA	Clear Lake	Clear Water Sewer District	300
	PFA	Dennison	Lift Station and Sewer Projects	726
	PFA	East Grand Forks	Interconnect with Grand Forks, ND	5,300
	PFA	Koochiching Cty	Island View Sewer Project	2,000
	Public Safety	Camp Ripley	Oil Train Derailment - Joint Emergency Response Training Center	3,521
	MN Academies	Systemwide	Asset Preservation	2,000
	MN Academies	Faribault	Security Corridor Design	50

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MnDOT	Moorhead	Rail Grade Separation on Crude Oil Rail Lines Program	42,262
	MnDOT	Red Wing	Rail Grade Separation on Crude Oil Rail Lines Program	14,762
	MnDOT	Anoka County	Rail Grade Separation on Crude Oil Rail Lines Program	14,100
	MnDOT	Statewide	Highway/Railroad Grade Crossing - Warning Devices Replacement	1,000
	MnDOT	Statewide	Port Development Assistance Program	5,000
	MnDOT	Statewide	Minnesota Rail Service Improvement Program	1,000
	MnDOT	Statewide	Safe Routes To School Infrastructure Program	1,000
	MnDOT	Statewide	Local Bridge Replacement Program Grants	16,537
	MnDOT	Isle	Malone Island Bridge	800
	MnDOT	Minneapolis	10th Avenue SE Bridge	31,875
	MnDOT	Statewide	Local Road Improvement Fund Grants	25,336
	MnDOT	Anoka County	35W and Lake Drive & W Freeway Drive	9,000
	MnDOT	Appleton Township	100th Street SW Road Upgrade	1,000
	MnDOT	Blaine	Reconstruction of 105th Avenue	3,246
	MnDOT	Baxter	Cypress Drive	6,000
	MnDOT	Carver Cty	Highway 212/County Rd 44 Interchange	10,500
	MnDOT	Eden Prairie	Pedestrian Rail Crossing	1,400
	MnDOT	Hennepin Cty	U.S. Highway 12 Interchange	11,300
	MnDOT	Hennepin Cty	Interstate 35W/CSAH 3 Transit/Access Project	25,000
	MnDOT	Inver Grove Hgts	Broderick Boulevard Reconstruction	1,000
	MnDOT	McLeod Cty	Morningside (CSAH 15) Corridor Completion	2,350
	MnDOT	Ramsey Cty	Interstate Highway 694/Rice Street Interchange	20,500
	MnDOT	Redwood Cty	Veterans Cemetery Access	700
	MnDOT	International Falls	Koochiching Cty Airport Comm. - Airline Terminal Construction	3,000
	MnDOT	Grand Rapids	Mississippi River Pedestrian Bridge	750
	MnDOT	Minnesota Valley	Rail Authority - Rail and Bridge Rehabiltiation	4,000
	U of M	Systemwide	HEAPR	20,600
	U of M	Minneapolis	Chemistry and Advanced Materials Science Building	28,267
	U of M	Minneapolis	Health Sciences Education Facility	66,667
	U of M	Minneapolis	Plant Growth Research Facility	4,400
	Vets Affairs	Systemwide	Asset Preservation	5,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Vets Affairs	Minneapolis	Veterans Home Truss Bridge Project	7,851
	Vets Affairs	Rice Cty	Veterans Memorial	30
	BWSR	Statewide	Reinvest in Minnesota Reserve Program	10,000
	BWSR	Statewide	Local Government Roads Wetland Replacement Program	5,000
2018, Chapter 214				
	Administration	St. Paul	Capitol Complex Security Upgrades	10,000
	Administration	Systemwide	Asset Preservation and Replacement Account	5,000
	Agriculture	Statewide	Rural Finance Authority Loans	35,000
	Amateur Sports	Blaine	NSC Asset Preservation	1,000
	Corrections	Systemwide	Asset Preservation	20,000
	Corrections	St. Cloud MCF	Plumbing and Ventilation Upgrades	16,000
	Corrections	Moose Lake	Control Room Renovation	1,950
	Education	Statewide	Library Construction Grants	1,000
	Education	Red Lake	ISD No. 38 Facility Projects	14,000
	Education	Atwater	ISD No. 2396 School Repurposing	5,000
	DEED	Statewide	Transportation Economic Dev. Infrastructure	1,000
	DEED	Wabasha	National Eagle Center & Wabasha Rivertown Resurgence	8,000
	DEED	Statewide	Business Development Public Infrastructure	5,000
	DEED	Statewide	Innovative Business Dev. Public Infrastructure	2,000
	DEED	Austin	Public Television	2,500
	DEED	Brooklyn Center	Second Harvest Heartland	18,000
	DEED	Hennepin Cty	Children's Theatre	1,000
	DEED	Itasca Cty	KAXE Radio Infrastructure	514
	DEED	Jackson	Memorial Park Redevelopment	290
	DEED	Minneapolis	Upper Harbor Terminal Redevelopment	15,000
	DEED	Pipestone Cty	Dental Center	500
	DEED	Polk Cty	North Country Food Bank	3,000
	DEED	Silver Bay	Black Beach Campground	1,765
	DEED	St. Paul	Conway Center	4,500
	DEED	St. Paul	Humanities Center	1,000
	DEED	St. Paul	MN Museum of American Art	2,500
	DEED	Waite Park	Quarry Redevelopment & Amphitheater	5,000
	DEED	Fergus Falls	Regional Treatment Center Demolition	3,500
	DEED	Goodhue Cty	Historical Society Museum	616
	DEED	Perham	School Repurposing	6,000
	DEED	Rosemount	Family Resource Center	450
	DEED	St. Paul	RiverCentre Parking Ramp	5,000
	DEED	St. Paul	SE Asian Language Job Training Facility	5,500
	DEED	Rice Lake	Water Main Replacement	359

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	Historical Soc.	St. Paul	Historic Fort Snelling Revitalization	15,000
	Historical Soc.	Systemwide	Asset Preservation	8,000
	MHFA	Statewide	Public Housing Rehabilitation	10,000
	DHS	St. Peter	Dietary Building HVAC and Electrical Replacement	2,200
	DHS	Anoka	Roof and HVAC Replacement	6,550
	DHS	Systemwide	Asset Preservation	10,000
	DHS	Systemwide	Regional Mental Health Crisis Center Grants	28,100
	DHS	Minneapolis	Family Partnership	10,000
	DHS	Scott Cty	Crisis Center	1,900
	DHS	Hennepin Cty	Regional Medical Examiner's Facility	15,073
	Metro Council	Statewide	Inflow and Infiltration Grant Program	5,000
	Metro Council	New Hope	50 Meter Pool	2,000
	Metro Council	St. Paul	Visitor & Interpretive Center at Bruce Vento Nature Sanctuary	3,000
	Metro Council	Carver Cty	Lake Waconia Park	1,500
	Metro Council	Loretto	Water Connection	400
	Metro Council	Ramsey Cty	White Bear Lake Trail	2,600
	Metro Council	Mahtomedi	White Bear Lake Trail	1,400
	Military Affairs	Brainerd	Readiness Center Design and Renovation	4,143
	Military Affairs	Grand Rapids	Readiness Center Design and Renovation	2,126
	Military Affairs	St. Cloud	Readiness Center Design and Renovation	4,450
	Military Affairs	Wadena	Readiness Center Design and Renovation	2,157
	MMB	Statewide	Bond Sale Expense	892
	MN State	Systemwide	HEAPR	45,000
	MN State	Anoka-Ramsey CC	Business and Nursing Building Design	569
	MN State	Bemidji	Academic Learning Center	22,512
	MN State	Century College	Applied Technology Center, East Campus, Design and Renovation	6,362
	MN State	Fond du Lac TCC	Maajiigi Design and Renovation	1,157
	MN State	Inver Hills CC	Technology and Business Center Design	698
	MN State	Mankato	Clinical Sciences Phase 2 Renovation	6,478
	MN State	Moorhead	Weld Hall Design	628
	MN State	Normandale CC	Classroom and Student Services Design and Renovation	12,636
	MN State	Riverland CC	Transp., Trade and Industrial Educ. Center Design, Construction and Renovation	10,122
	MN State	Rochester CTC	Memorial and Plaza Halls Demolition, Design, Renovation and Construction	22,853
	MN Zoo	Apple Valley	Asset Preservation	6,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	DNR	Systemwide	Asset Preservation	26,581
	DNR	Systemwide	Flood Hazard Mitigation Grant Assistance	20,000
	DNR	Systemwide	Betterment of Buildings	6,000
	DNR	Systemwide	State Park and Recreation Area Accessibility	500
	DNR	Fillmore Cty	Extension of Blufflands State Trail	1,500
	DNR	Olmsted Cty	Chester Woods State Trail	2,500
	DNR	Aitkin Cty	Northwoods ATV Trail	1,500
	DNR	Battle Lake	Glendalough State Park	750
	DNR	Lake Vermillion-Soudan	Underground Mine State Park	4,000
	DNR	Systemwide	Mill Towns State Trail	500
	DNR	Austin	Shooting Star State Trail	250
	DNR	Babbitt	Babbitt Recreation Area	1,300
	DNR	Cohasset	Tioga Recreation Area	1,000
	DNR	Grand Marais	Lake Superior Water Access	2,000
	DNR	La Crescent	Wagon Wheek Trail	2,500
	DNR	Olmsted Cty	Lake Zumbro Sedimentation Removal	640
	DNR	Systemwide	Mesabi Trail	1,138
	DNR	Stillwater	St. Croix River Riverbank Restoration	1,650
	DNR	Systemwide	State Forest Reforestation and Stand Improvement	3,000
	DNR	Ely	Trailhead Development	1,360
	Administration	Perpich Ctr for Arts	Asset Preservation	250
	PCA	Becker Cty	Solid Waste Facility	750
	PFA	Statewide	Water Infrastructure Initiative	14,000
	PFA	Statewide	Water Infrastructure Funding Program	25,000
	PFA	Windom	Wastewater Treatment Plant Upgrade	3,000
	PFA	Arden Hills	Water Main	500
	PFA	Aurora	Multi-City Wastewater Infrastructure	2,500
	PFA	Big Lake	Wastewater Treatment Facility	1,000
	PFA	Cold Spring	Water Treatment Facility	4,000
	PFA	Systemwide	Multi-City Water Infrastructure	850
	PFA	Oronoco	Wastewater Infrastructure	2,500
	PFA	St. James	Stormwater Retention Pond	3,000
	PFA	Waldorf	Wastewater Treatment Infrastructure	1,900
	PFA	Winnebago	Water Infrastructure	1,100
	PFA	Albertville	Wastewater Treatment Plant Improvements	2,000
	PFA	Glencoe	Wastewater Treatment Facility	3,000
	Public Safety	Cottage Grove	HERO Center	9,500
	Public Safety	Dakota Cty	Regional Public Safety Center	6,200
	Public Safety	Marshall	MERIT Center	3,100
	MN Academies	Systemwide	Asset Preservation	2,000
	MnDOT	Statewide	Local Road Improvement Program	35,000
	MnDOT	Anoka Cty	Thurston Blvd Interchange	15,000

Law Authorizing	Agency	Location Or Program	Project/Program Description	Total Project Appropriation ($ in thousands)
	MnDOT	Dayton	Brockton Interchange	13,500
	MnDOT	Inver Grove Hgts	Argenta Trail 70th Street Expansion	6,100
	MnDOT	Carver Cty	Highway 101	9,000
	MnDOT	Statewide	Local Bridge Replacement Program	5,000
	MnDOT	Statewide	Port Development Assistance Program	5,200
	MnDOT	Statewide	Safe Routes to School	1,000
	MnDOT	Minneapolis	Stone Arch Bridge	1,000
	MnDOT	Brooklyn Park	Highway 169/101st Ave	4,000
	MnDOT	Chisago Cty	Highway 8 Reconstruction	3,000
	MnDOT	Pope County	TH 29 & 55 Rail Grade Separation	10,500
	MnDOT	Statewide	Corridors of Commerce	400,000
	MnDOT	Foley	Highway 23 Safety Improvements	200
	MnDOT	Anoka Cty	Rail Grade Separation	2,000
	MnDOT	Hennepin Cty	CSAH 9 & I-494 Bridge (Rockford Rd)	9,720
	MnDOT	Mankato	Highway 169 Levee Reconstruction	830
	MnDOT	Wadena	Highway 10 Environmental Cleanup	5,000
	MnDOT	Becker	Industrial Park Improvements	3,300
	MnDOT	Wakefield Twp	Wakefield/Luxembourg 100th Street	600
	MnDOT	Rochester	Bus Garage	2,500
	MnDOT	Goodview	Railroad Crossing Quiet Zone	330
	MnDOT	Loretto	Rail Crossing Safety Improvements	350
	MnDOT	Medina	Rail Crossing Safety Improvements	450
	MnDOT	Wayzata	Rail Crossing Safety Improvements	400
	MnDOT	New Brighton	Rice Creek Bridge	1,000
	MnDOT	Moorhead	21st Street South Rail Grade Separation	6,000
	MnDOT	Rosemount	Bonaire Path Railroad Quiet Zone	1,000
	U of M	Systemwide	HEAPR	45,000
	U of M	Crookston	Dowell and Owen Halls	3,200
	U of M	Morris	Humanities Building and Blakely Hall	3,200
	U of M	Minneapolis	Pillsbury Hall Capital Renewal	24,000
	U of M	Duluth	Glensheen Capital Renewal	4,000
	Vets Affairs	Systemwide	Asset Preservation	9,000
	Vets Affairs	Bemidji	Veterans Home	12,400
	Vets Affairs	Montevideo	Veterans Home	9,400
	Vets Affairs	Preston	Veterans Home	10,200
	BWSR	Statewide	Local Government Roads Wetland Replacement	6,700
	BWSR	Systemwide	Minnesota River Basin Area II	700

DESCRIPTION OF RURAL FINANCE AUTHORITY PROGRAMS

The Rural Finance Authority (RFA) currently administers ten loan programs to provide affordable credit to eligible farmers, and one program to provide financial assistance to proposed methane digester projects.

Five programs are funded from the sale of general obligation bonds. They include: the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program, the Agricultural Improvement Program, the Livestock Expansion Loan Program and the Restructure II Loan Program.

All five programs are participation programs whereby the RFA joins in partnership with local lending institutions to provide credit based upon certain pre-established rules. Over 450 financial facilities are included in master participation agreements.

General eligibility requirements for all five programs are: (1) a borrower must be a resident of Minnesota or a domestic family farm corporation or family farm partnership, as defined in Minnesota Statutes, Section 500.24, subdivision 2; and (2) the borrower or one of the borrowers must be the principal operator of the farm with respect to which the loan is made.

Security for the bond funded loans must be a first mortgage on agricultural real estate. The interest rate for the RFA portion of a loan is set to meet the debt service requirements of the bonds sold to finance it. The maximum term for loan participations is ten (10) years unless otherwise stated by the RFA.

The Commissioner of Management and Budget is authorized to issue up to $306.6 million in State general obligation bonds to finance certain programs of the RFA and has issued, including bonds from this sale, $287.1 million of these bonds for this purpose.

The following is a more extensive description of each of the five loan participation programs:

Beginning Farmer Loan Program

This program is aimed at younger, lower equity individuals who intend, over time, to become full time farmers. The purpose is to enable the beginning farmer to purchase farm real estate. The RFA participation is limited to 45 percent of the loan principal up to a maximum of $400,000. Each loan requires a minimum down payment of 10 percent of the purchase price. Loan amortization may be scheduled on a term of 15, 20, 25 or 30 years as negotiated among the lender, the borrower and the RFA. RFA participation is for a maximum of 10 years unless otherwise stated by the RFA. A Borrower must (1) have sufficient education, training or experience to succeed in the type of farming that they intend to pursue; (2) have a total net worth not exceeding $816,800, indexed yearly for inflation; (3) agree to enroll in a farm business management program approved by the Commissioner of Agriculture; and (4) agree to obtain credit life insurance for the amount of the debt incurred.

Seller-Sponsored Loan Program

This program is very similar to the Beginning Farmer program with one exception. This program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale. The seller agrees to subordinate its financing to the lender/RFA. The lender and the RFA provide the balance of the funds with a first mortgage. The down payment is negotiable. The program rules do not, however, require one to be made. Each lender determines its own requirements based on the buyer’s ability to repay the needed financing.

Agricultural Improvement Program

This program creates affordable financing for new, state-of-the-art improvements for agriculture production, including the purchase and construction or installation of improvements to land, buildings and other permanent structures, and equipment incorporated in or permanently affixed to the land, buildings or structures, which are useful for and intended for the purpose of improving a farm. The improvements can be for any farm related purpose including livestock facilities, grain handling facilities, machine storage, erosion control, wells and manure systems. The RFA participation is 45 percent of the loan principal to a maximum of $400,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must have a total net worth not exceeding $816,800, indexed for inflation.

Restructured II Loan Program

Under this program, the RFA works with local lenders to help farmers reorganize their debt. This program is for farmers who remain in good credit standing with their local lender, but who are having trouble with cash flow. Only debt of an agricultural nature is eligible. The RFA will participate on 45 percent of the loan principal up to $525,000. The loans may be amortized over a period of up to 25 years. Participation is restricted to loans that do not exceed 80 percent of the appraised value of real estate comprising collateral for the loan. A borrower must (1) have received at least 50 percent of average annual gross income from farming for the past three years; (2) have a net worth not exceeding $1,735,700, indexed for inflation; and (3) have projected annual expenses not exceeding 95 percent of projected annual income.

Livestock Expansion Program

This program is similar to the Agricultural Improvement program, but only for livestock related needs. It creates affordable financing for new, state-of-the-art improvements to land, buildings and other permanent structures, and equipment incorporated in or permanently affixed to the land, buildings or structures, which are useful for and intended for the purpose of raising livestock. The RFA may participate on a loan up to 45 percent of the loan principal to a maximum of $525,000. The RFA is restricted to participation in loans that do not exceed 80 percent of the appraised value of the real estate comprising collateral for the loan. A borrower must (1) be actively engaged in a livestock operation; (2) have the ability to repay the loan; and (3) have a total net worth not exceeding $1,735,700, indexed for inflation.

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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
Census (April 1)					
2000	281,425	4,920	1.75 %	-	-
2010	308,746	5,304	1.72	-	-
Intercensal Population Estimates (July 1)					
2000	282,162	4,934	1.75 %	1.1 %	1.2 %
2001	284,969	4,983	1.75	1.0	1.0
2002	287,625	5,019	1.74	0.9	0.7
2003	290,108	5,054	1.74	0.9	0.7
2004	292,805	5,088	1.74	0.9	0.7
2005	295,517	5,120	1.73	0.9	0.6
2006	298,380	5,164	1.73	1.0	0.9
2007	301,231	5,207	1.73	1.0	0.8
2008	304,094	5,247	1.73	1.0	0.8
2009	306,772	5,281	1.72	0.9	0.7
2010	309,338	5,311	1.72	0.8	0.6
2011	311,644	5,346	1.72	0.7	0.7
2012	313,993	5,378	1.71	0.8	0.6
2013	316,235	5,416	1.71	0.7	0.7
2014	318,623	5,453	1.71	0.8	0.7
2015	321,040	5,483	1.71	0.8	0.6
2016	323,406	5,525	1.71	0.7	0.8
2017	325,719	5,577	1.71	0.7	0.9

Source: U.S. Department of Commerce, U.S. Census Bureau, www.census.gov/popest.
Data extracted by MMB staff in June 2018.

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NON-FARM EMPLOYMENT-MIX OF MINNESOTA AND UNITED STATES FOR 2017
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Total Private	2,506.2	85.5	124,120	84.8
Goods-Producing	444.5	15.2	20,040	13.7
Mining and Logging	6.5	0.2	708	0.5
Construction	119.6	4.1	6,901	4.7
Manufacturing Durables	200.9	6.9	7,759	5.3
Manufacturing Non-Durables	117.4	4.0	4,671	3.2
Private Service Providing	2,061.7	70.4	104,081	71.1
Wholesale Trade	132.5	4.5	5,923	4.0
Retail Trade	298.9	10.2	15,842	10.8
Transportation, Warehousing, Utilities	106.2	3.6	5,635	3.8
Information	50.4	1.7	2,727	1.9
Financial Activities	180.0	6.1	8,447	5.8
Professional and Business Services	373.8	12.8	20,722	14.2
Education and Health Services	533.5	18.2	23,112	15.8
Leisure and Hospitality	269.9	9.2	15,914	10.9
Other Services	116.6	4.0	5,759	3.9
Government	424.2	14.5	22,322	15.2
Total (Non-Farm)	**2,930.4**	**100.0**	**146,443**	**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 2018.

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EMPLOYMENT-MIX IN DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2017
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Wood Products	11.4	5.7	395	5.1
Fabricated Metal Products	42.3	21.1	1,443	18.6
Machinery	32.8	16.3	1,092	14.1
Computers and Electronic Products	45.0	22.4	1,041	13.4
Transportation Equipment	10.6	5.3	1,615	20.8
Medical Equipment and Supplies	16.2	8.0	309	4.0
Other Durables	42.7	21.3	1,864	24.0
Total Durable Goods Manufacturing	**200.9**	**100.0**	**7,759**	**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 2018.

EMPLOYMENT-MIX IN NON-DURABLE GOODS INDUSTRIES OF UNITED STATES AND MINNESOTA FOR 2017
(Thousands of Jobs)

Industry	Minnesota	% of Total	U.S.	% of Total
Food Manufacturing	47.7	40.6	1,597	34.2
Other Non-Durables	69.8	59.4	3,074	65.8
Total Non-Durable Goods	**117.4**	**100.0**	**4,671**	**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 2018.

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NON-FARM EMPLOYMENT-MIX OF UNITED STATES AND MINNESOTA: 1990, 2000 AND 2010
(Thousands of Jobs)

	Minnesota					United States				
				% Change					% Change	
Category	**1990**	**2000**	**2010**	**90-00**	**00-10**	**1990**	**2000**	**2010**	**90-00**	**00-10**
Total Private	1,788.0	2,277.3	2,224.1	27.4	(2.3)	91,072	111,235	107,871	22.1	(3.0)
Goods-Producing	427.8	523.5	386.3	22.4	(26.2)	23,723	24,649	17,751	3.9	(28.0)
Mining and Logging	8.4	8.1	6.0	(3.6)	(26.3)	765	599	705	(21.7)	17.7
Construction	77.9	118.8	87.6	52.5	(26.3)	5,263	6,787	5,518	29.0	(18.7)
Manufacturing Durables	217.2	255.4	183.4	17.6	(28.2)	10,737	10,877	7,064	1.3	(35.1)
Manufacturing Non-Durables	124.2	141.1	109.3	13.6	(22.5)	6,958	6,386	4,464	(8.2)	(30.1)
Private Service Providing	1,360.2	1,753.7	1,837.8	28.9	4.8	67,349	86,585	90,120	28.6	4.1
Wholesale Trade	106.6	129.0	123.2	21.0	(4.5)	5,268	5,933	5,452	12.6	(8.1)
Retail Trade	255.8	307.1	277.1	20.1	(9.8)	13,182	15,280	14,440	15.9	(5.5)
Transportation, Warehousing, Utilities	85.8	103.3	89.7	20.4	(13.1)	4,216	5,012	4,744	18.9	(5.3)
Information	54.3	69.2	54.1	27.4	(21.8)	2,688	3,630	2,707	35.0	(25.4)
Financial Activities	129.3	164.8	170.8	27.5	3.6	6,614	7,783	7,695	17.7	(1.1)
Professional and Business Services	214.5	319.2	315.2	48.8	(1.3)	10,848	16,666	16,728	53.6	0.4
Education and Health Services	241.8	324.5	458.4	34.2	41.3	10,984	15,252	19,975	38.9	31.0
Leisure and Hospitality	180.5	221.6	235.2	22.8	6.1	9,288	11,862	13,049	27.7	10.0
Other Services	91.3	114.6	114.1	25.5	(0.5)	4,261	5,168	5,331	21.3	3.2
Government	347.9	407.6	416.5	17.2	2.2	18,415	20,790	22,490	12.9	8.2
Total (Non-Farm)	**2,135.9**	**2,684.9**	**2,640.6**	**25.7**	**(1.7)**	**109,487**	**132,024**	**130,361**	**20.6**	**(1.3)**

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 2018.

MINNESOTA AND UNITED STATES PER CAPITA PERSONAL INCOME

Year	Minnesota	U.S.	Minnesota as % of U.S.
1995	$24,169	$23,568	102.5%
1996	25,778	24,728	104.2
1997	26,938	25,950	103.8
1998	29,010	27,510	105.5
1999	30,134	28,627	105.3
2000	32,247	30,602	105.4
2001	33,204	31,540	105.3
2002	33,754	31,815	106.1
2003	35,174	32,692	107.6
2004	37,048	34,316	108.0
2005	37,775	35,904	105.2
2006	39,407	38,144	103.3
2007	41,258	39,821	103.6
2008	42,980	41,082	104.6
2009	40,739	39,376	103.5
2010	42,122	40,278	104.6
2011	44,639	42,463	105.1
2012	47,236	44,283	106.7
2013	47,274	44,489	106.3
2014	49,248	46,486	105.9
2015	51,139	48,429	105.6
2016	51,990	49,204	105.7
2017	53,043	50,392	105.3

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 2018.

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PERSONAL INCOME GROWTH AND RESIDENT POPULATION IN TWELVE STATE NORTH CENTRAL REGION 1990-2000 AND 2000-2010

State	1990 Personal Income (Millions)	2000 Personal Income (Millions)	1990-2000 Annual Compound Rate of Increase (%)	Regional Growth Rank 1990-2000	2010 Personal Income (Millions)	2000-2010 Annual Compound Rate of Increase (%)	Regional Growth Rank 2000-2010	2000 Census Population (Thousands)	2000 Per Capita Personal Income ($)	2000 Regional Rank	2010 Census Population (Thousands)	2010 Per Capita Personal Income ($)	2010 Regional Rank
Illinois	$240,750	$412,843	5.5%	5	$535,464	2.6%	10	12,434	$32,202	1	12,842	$41,698	3
Indiana	$98,288	$171,539	5.7	4	$227,692	2.9	9	6,092	$28,159	8	6,491	$35,081	12
Iowa	$49,067	$80,585	5.1	10	$115,763	3.7	5	2,929	$27,512	10	3,051	$37,946	8
Kansas	$45,671	$76,512	5.3	9	$112,084	3.7	4	2,694	$28,404	7	2,859	$39,206	6
Michigan	$176,444	$302,464	5.5	6	$347,723	1.4	12	9,952	$30,391	3	9,877	$35,204	11
Minnesota	$86,896	$159,097	6.2	1	$223,700	3.5	6	4,934	$32,247	2	5,311	$42,119	2
Missouri	$91,774	$156,903	5.5	7	$2220,252	3.4	7	5,607	$27,982	9	5,996	$36,732	9
Nebraska	$29,214	$49,512	5.4	8	$74,149	4.1	3	1,714	$28,890	5	1,830	$40,518	5
North Dakota	$10,290	$16,695	5.0	11	$29,450	5.8	1	642	$26,004	12	675	$43,661	1
Ohio	$202,827	$323,965	4.8	12	$419,570	2.6	11	11,364	$28,509	6	11,541	$36,355	10
South Dakota	$11,513	$20,263	5.8	3	$33,521	5.2	2	756	$26,808	11	816	$41,063	4
Wisconsin	$90,143	$159,511	5.9	2	$219,628	3.2	8	5,374	$29,682	4	5,690	$38,597	7
Region	**$1,132,879**	**$1,929,889**	**5.5**		**$2,558,996**	**2.9**		**64,491**	**$29,925**		**66,979**	**$38,206**	
U.S.	**$4,890,453**	**$8,634,847**	**5.8**		**$12,459,613**	**3.7**		**281,162**	**$30,602**		**309,348**	**$40,277**	

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 2018.

PERSONAL INCOME GROWTH IN TWELVE STATE NORTH CENTRAL REGION: 2016-2017
($'s in Millions)

Growth Rank	State	2016 Personal Income	2017 Personal Income	Percent Growth
1	Indiana	$285,864	$294,440	3.0%
2	Michigan	$439,361	$450,847	2.6
3	Illinois	$663,338	$676,053	1.9
4	Wisconsin	$270,226	$277,317	2.6
5	Missouri	$261,548	$266,921	2.1
6	Minnesota	$287,250	$295,798	3.0
7	Ohio	$517,918	$531,811	2.7
8	Kansas	$137,305	$138,673	1.0
9	Nebraska	$95,411	$96,762	1.4
10	Iowa	$144,196	$144,691	0.3
11	South Dakota	$41,398	$41,988	1.4
12	North Dakota	$41,405	$41,277	-0.3
	Region	**$3,185,221**	**$3,256,578**	**2.2**
	U.S.	**$15,912,777**	**$16,017,781**	**0.7**

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 2018.

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NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION: 1990-2000 AND 2000-2010
(Thousands of Jobs)

State	1990 Non-Farm Employment	2000 Non-Farm Employment	1990-2000 Percent Increase	Regional Growth Rank 1990-2000	2010 Non-Farm Employment	2000-2010 Percent Increase	Regional Growth Rank 2000-2010
Illinois	5,288	6,042	14.3%	12	5,610	(7.1)%	10
Indiana	2,522	3,004	19.1	8	2,799	(6.8)	9
Iowa	1,226	1,479	20.6	7	1,469	(0.6)	4
Kansas	1,092	1,346	23.3	6	1,330	(1.2)	5
Michigan	3,944	4,676	18.5	9	3,864	(17.4)	12
Minnesota	2,136	2,683	25.6	2	2,638	(1.7)	6
Missouri	2,345	2,749	17.2	10	2,658	(3.3)	7
Nebraska	731	913	24.9	3	945	3.5	3
North Dakota	266	328	23.3	5	376	14.7	1
Ohio	4,882	5,625	15.2	11	5,036	(10.5)	11
South Dakota	289	378	31.0	1	403	6.7	2
Wisconsin	2,291	2,832	23.6	4	2,725	(3.8)	8
Region	**27,012**	**32,053**	**18.7%**		**29,853**	**(6.9)%**	
U.S.	**109,527**	**132,024**	**20.5%**		**130,361**	**(1.3)%**	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2018.

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**NON-FARM EMPLOYMENT IN TWELVE STATE NORTH CENTRAL REGION:
2015-2016 AND 2016-2017
(Thousands of Jobs)**

State	2015 Non-Farm Employment	2016 Non-Farm Employment	2015-2016 Percent Increase	Regional Growth Rank 2015-2016	2017 Non-Farm Employment	2016-2017 Percent Increase	Regional Growth Rank 2016-2017
Illinois	5,968	6,019	0.9	9	6,062	0.7	6
Indiana	3,034	3,074	1.3	3	3,105	1.0	4
Iowa	1,561	1,571	0.6	10	1,572	0.1	10
Kansas	1,400	1,404	0.3	11	1,404	(0.0)	11
Michigan	4,243	4,319	1.8	1	4,371	1.2	2
Minnesota	2,854	2,892	1.3	4	2,930	1.3	1
Missouri	2,797	2,839	1.5	2	2,869	1.1	3
Nebraska	1,007	1,015	0.9	8	1,018	0.2	9
North Dakota	454	434	(4.3)	12	431	(0.9)	12
Ohio	5,424	5,481	1.1	6	5,526	0.8	5
South Dakota	429	432	0.9	7	434	0.5	8
Wisconsin	2,892	2,927	1.2	5	2,945	0.6	7
Region	**32,062**	**32,407**	**1.1%**		**32,667**	**0.8%**	
U.S.	**141,843**	**144,352**	**1.8%**		**146,624**	**1.6%**	

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/ces.
Data extracted by MMB staff June 2018.

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MINNESOTA & UNITED STATES UNEMPLOYMENT RATES
(Percent)

	Annual Average	
Year	**Minnesota %**	**U.S. %**
2000	3.2	4.0
2001	3.8	4.7
2002	4.5	5.8
2003	4.9	6.0
2004	4.7	5.5
2005	4.1	5.1
2006	4.0	4.6
2007	4.6	4.6
2008	5.4	5.8
2009	7.8	9.3
2010	7.4	9.6
2011	6.5	8.9
2012	5.6	8.1
2013	5.0	7.4
2014	4.2	6.2
2015	3.7	5.3
2016	3.9	4.9
2017	3.5	4.4

	Monthly Figures (Seasonally Adjusted)	
Month	**Minnesota %**	**U.S. %**
2017		
January	3.8	4.8
February	3.7	4.7
March	3.6	4.5
April	3.5	4.4
May	3.5	4.3
June	3.4	4.3
July	3.4	4.3
August	3.3	4.4
September	3.3	4.2
October	3.3	4.1
November	3.3	4.1
December	3.3	4.1
2018		
January	3.3	4.1
February	3.2	4.1
March	3.2	4.1
April	3.2	3.9

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 June 2018.

MINNESOTA BASED COMPANIES INCLUDED IN THE FORTUNE 500

($ in millions)

Rank 2017	Rank 2016	Company	Revenues	Assets	Profits	Industry Category	Industry Rank
5	6	UnitedHealth Group	$ 201,159	$ 139,058	$ 10,558	Health Care: Insurance and Managed Care	1
39	38	Target	$ 71,879	$ 38,999	$ 2,934	General Merchandisers	3
72	72	Best Buy	$ 42,151	$ 13,049	$ 1,000	Specialty Retailers: Other	3
96	93	Cenex Harvest States (CHS)	$ 31,935	$ 15,974	$ 128	Food Production	3
97	94	Minnesota Mining & Manufacturing (3M)	$ 31,657	$ 37,987	$ 4,858	Miscellaneous	1
122	125	U.S. Bancorp	$ 23,996	$ 462,040	$ 6,218	Commercial Banks	8
180	158	Supervalu	$ 16,009	$ 3,580	$ 650	Food and Drug Stores	6
182	165	General Mills	$ 15,620	$ 21,813	$ 1,658	Food Consumer Products	4
193	212	C.H. Robinson Worldwide	$ 14,869	$ 4,236	$ 505	Transportation and Logistics	2
215	211	Ecolab	$ 13,838	$ 19,962	$ 1,508	Chemicals	5
216	209	Land O'Lakes	$ 13,740	$ 9,509	$ 314	Food Consumer Products	5
252	239	Ameriprise Financial	$ 12,075	$ 147,470	$ 1,480	Diversified Financials	9
266	256	Xcel Energy	$ 11,404	$ 43,030	$ 1,148	Utilities: Gas and Electric	13
323	295	Hormel Foods	$ 9,168	$ 6,976	$ 847	Food Consumer Products	8
343	316	Thrivent Financial for Lutherans	$ 8,528	$ 95,001	$ 558	Insurance: Life, Health (Mutual)	6
382	377	Mosaic	$ 7,409	$ 18,633	$ (107)	Chemicals	11
462	--	Securian Financial Group	$ 6,067	$ 51,232	$ 419	Insurance: Life, Health (Stock)	11
490	466	Patterson Companies Inc.	$ 5,593	$ 3,508	$ 171	Wholesalers: Health Care	6
496	--	Polaris Industries	$ 5,505	$ 3,090	$ 173	Transportation Equipment	2

Source: Fortune Magazine, http://fortune.com/fortune500/
Data extracted by MMB staff June 2018.

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APPENDIX F
SELECTED STATE FINANCIAL STATEMENTS
For the Fiscal Year
Ended June 30, 2017

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APPENDIX F
SELECTED STATE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017
Table of Contents

BASIC FINANCIAL STATEMENTS

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Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Mark Dayton, Governor

Mr. Myron Frans, 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, 2017, 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 represents 60 percent, 46 percent, and 35 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, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 95 percent, 91 percent, and 97 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.

Room 140 Centennial Building, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Phone: 651-296-4708 • Fax: 651-296-4712
E-mail: legislative.auditor@state.mn.us • Website: www.auditor.leg.state.mn.us • Minnesota Relay: 1-800-627-3529 or 7-1-1

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, 2017, 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.

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.

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.

James Nobles
Legislative Auditor

Scott Tjomsland, CPA, CISA
Audit Director

December 15, 2017

MINNESOTA

2017 Comprehensive Annual 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, 2017, 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 and liabilities 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 ten 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 seven 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
- National Sports Center Foundation
- Office of Higher Education
- Public Facilities Authority
- Rural Finance Authority
- Workers' Compensation Assigned Risk Plan
- Minnesota Sports Facilities Authority

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 23 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 balances 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 18 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 ten 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 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 Agency 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 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 funding progress, and public employees insurance program development information.

Other Supplementary Information

Other supplementary information includes combining 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.

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 $16.4 billion at the end of fiscal year 2017, compared to $16.8 billion at the beginning of the year.

Net Position
June 30, 2017, and 2016
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current Assets[1]	$ 16,784,902	$ 15,335,211	$ 3,054,108	$ 3,162,343	$ 19,839,010	$ 18,497,554
Noncurrent Assets:						
Capital Assets[1]	16,908,948	16,169,021	2,267,243	2,270,299	19,176,191	18,439,320
Other Assets	749,115	751,107	101,975	107,467	851,090	858,574
Total Assets	$ 34,442,965	$ 32,255,339	$ 5,423,326	$ 5,540,109	$ 39,866,291	$ 37,795,448
Deferred Outflows of Resources	$ 7,942,864	$ 666,160	$ 1,461,097	$ 75,020	$ 9,403,961	$ 741,180
Current Liabilities	$ 6,373,620	$ 5,711,555	$ 475,567	$ 440,608	$ 6,849,187	$ 6,152,163
Noncurrent Liabilities	21,346,725	12,287,991	2,980,317	1,281,207	24,327,042	13,569,198
Total Liabilities	$ 27,720,345	$ 17,999,546	$ 3,455,884	$ 1,721,815	$ 31,176,229	$ 19,721,361
Deferred Inflows of Resources	$ 1,511,236	$ 1,828,043	$ 133,428	$ 217,337	$ 1,644,664	$ 2,045,380
Net Position:						
Net Investment in Capital Assets[1]	$ 12,659,739	$ 11,933,870	$ 1,650,940	$ 1,620,835	$ 14,310,679	$ 13,554,705
Restricted	5,523,662	5,633,354	1,896,802	2,120,972	7,420,464	7,754,326
Unrestricted[1]	(5,029,153)	(4,473,314)	(252,631)	(65,830)	(5,281,784)	(4,539,144)
Total Net Position	$ 13,154,248	$ 13,093,910	$ 3,295,111	$ 3,675,977	$ 16,449,359	$ 16,769,887

[1] 2016 has been restated to be consistent with 2017 presentation.

The largest portion, $14.3 billion of $16.4 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 $7.4 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 $5.3 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 decreased $321 million (1.9 percent) over the course of this fiscal year. This resulted from a $60 million (.5 percent) increase in net position of governmental activities, and a $381 million (10.4 percent) decrease in net position of business-type activities.

Changes in Net Position
Fiscal Years Ended June 30, 2017, and 2016
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	$ 1,518,828	$ 1,454,645	$ 2,408,459	$ 2,638,382	$ 3,927,287	$ 4,093,027
Operating Grants and Contributions[1]	11,358,204	10,932,375	456,997	481,563	11,815,201	11,413,938
Capital Grants	142,942	194,056	-	-	142,942	194,056
General Revenues:						
Individual Income Taxes	11,307,961	10,969,019	-	-	11,307,961	10,969,019
Corporate Income Taxes[1]	1,270,423	1,361,681	-	-	1,270,423	1,361,681
Sales Taxes	5,779,685	5,534,870	-	-	5,779,685	5,534,870
Property Taxes	850,240	846,216	-	-	850,240	846,216
Motor Vehicle Taxes	1,518,531	1,428,134	-	-	1,518,531	1,428,134
Fuel Taxes	917,834	904,424	-	-	917,834	904,424
Other Taxes	2,833,543	2,801,323	-	-	2,833,543	2,801,323
Tobacco Settlement	165,244	170,179	-	-	165,244	170,179
Investment/Interest Income	66,639	35,289	45,797	44,919	112,436	80,208
Other Revenues	87,096	50,574	11,989	8,067	99,085	58,641
Total Revenues	$ 37,817,170	$ 36,682,785	$ 2,923,242	$ 3,172,931	$ 40,740,412	$ 39,855,716
Expenses:						
Agricultural, Environmental and Energy Resources	$ 1,254,115	$ 1,023,349	$ -	$ -	$ 1,254,115	$ 1,023,349
Economic and Workforce Development	806,872	658,893	-	-	806,872	658,893
General Education	9,836,193	9,434,928	-	-	9,836,193	9,434,928
General Government	1,589,095	1,151,991	-	-	1,589,095	1,151,991
Health and Human Services	16,396,755	15,590,493	-	-	16,396,755	15,590,493
Higher Education	987,375	976,351	-	-	987,375	976,351
Intergovernmental Aid	1,644,215	1,626,833	-	-	1,644,215	1,626,833
Public Safety and Corrections	1,360,363	1,005,349	-	-	1,360,363	1,005,349
Transportation	2,998,902	2,814,456	-	-	2,998,902	2,814,456
Interest	291,679	305,017	-	-	291,679	305,017
State Colleges and Universities	-	-	2,204,067	1,910,435	2,204,067	1,910,435
Unemployment Insurance	-	-	785,137	801,670	785,137	801,670
Lottery	-	-	429,843	446,860	429,843	446,860
Other	-	-	476,329	383,012	476,329	383,012
Total Expenses	$ 37,165,564	$ 34,587,660	$ 3,895,376	$ 3,541,977	$ 41,060,940	$ 38,129,637
Excess (Deficiency) Before Transfers	$ 651,606	$ 2,095,125	$ (972,134)	$ (369,046)	$ (320,528)	$ 1,726,079
Transfers	(591,268)	(661,843)	591,268	661,843	-	-
Change in Net Position	$ 60,338	$ 1,433,282	$ (380,866)	$ 292,797	$ (320,528)	$ 1,726,079
Net Position, Beginning[1]	$ 13,093,910	$ 11,660,628	$ 3,675,977	$ 3,383,180	$ 16,769,887	$ 15,043,808
Net Position, Ending	$ 13,154,248	$ 13,093,910	$ 3,295,111	$ 3,675,977	$ 16,449,359	$ 16,769,887

[1] 2016 has been restated to be consistent with 2017 presentation.

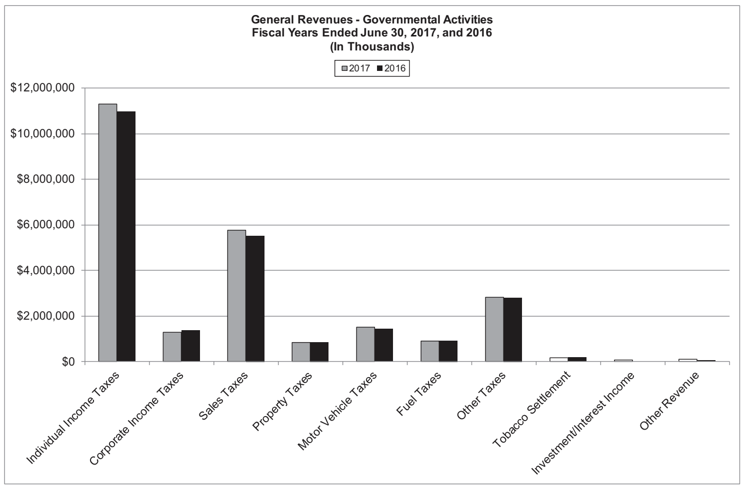
Approximately 60 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 29 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 10 percent of the total revenues. The remaining 1 percent came from other general revenues.

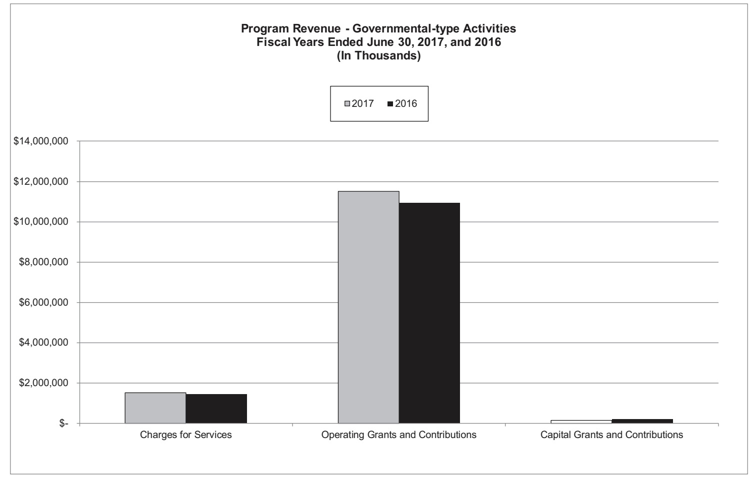
The state's expenses cover a range of services. The largest expenses were for general education and health and human services.

Governmental Activities

Governmental activities increased the state's net position by $60 million in the current year compared to an increase of $1.4 billion in the prior year.

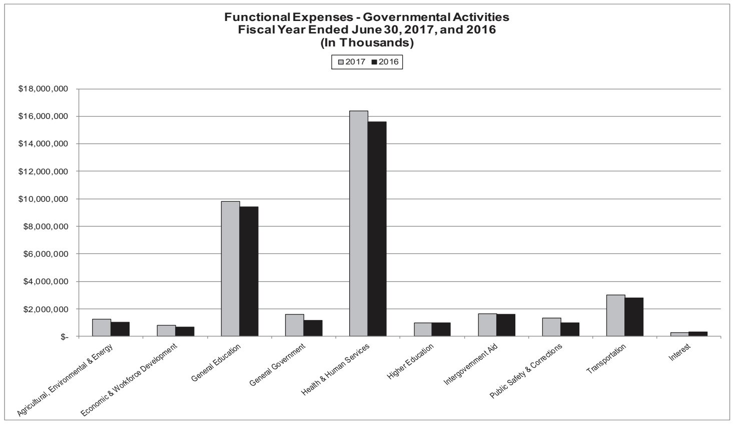
Revenues increased slightly, $1.1 billion (3.1 percent) over prior year. Sales and individual income taxes grew slightly due to a growth in wages. Operating grants and contributions increased due to additional federal revenue as a result of the federal government's share of the increase in medical assistance and Minnesota Care expenses. Motor vehicle taxes grew slightly as a result of an increase in vehicle sales.

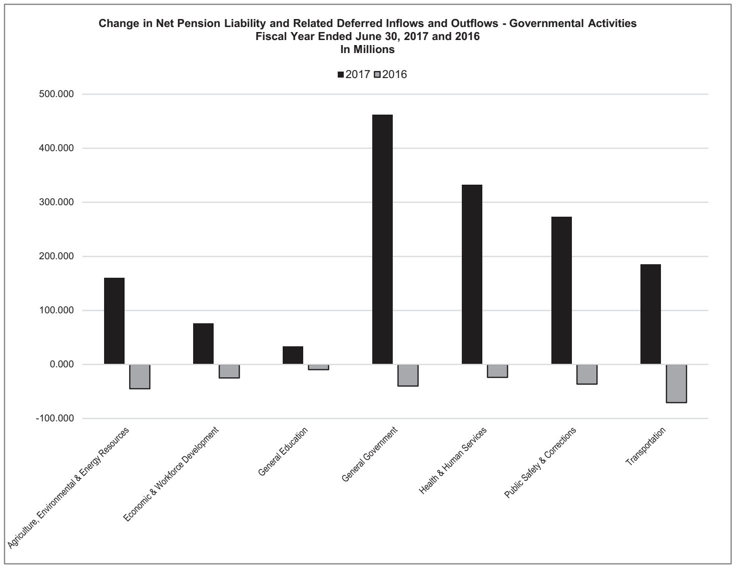




There was a $2.6 billion (7.5 percent) increase in expenses compared to the prior year. Approximately 70 percent of the increase in expenses relates to the impact of pension reporting. This reporting impacted all functional expenses except higher education and intergovernment aid. See chart on Changes in Net Pension Liability and Related Deferred Inflows and Outflows for the impact by functional expenses.

Health and human services expenses also increased as a result of increased enrollment and a growth in cost for medical assistance. As previously noted, these expenses were partially reimbursed by the federal government. The additional increase in general education was primarily due to a two percent per pupil formula increase and a slight increase in the number of pupils. Economic and workforce development also increased due to grants for the expansion of broadband to rural communities. General government increased due to a new health insurance premium assistance program. These increases were offset by a decrease in grants to the Minnesota Sports Facilities Authority (component unit) as the professional football stadium was completed in July 2016. Public safety and corrections expenses also increased as a result of an increase in healthcare costs for inmates and an increase in costs for the Bureau of Criminal Apprehension's crime lab. Transportation expenses increase related to pensions was slightly offset by a decrease caused by delays in projects as well as cost savings due to competition between contractors and lower bituminous costs.

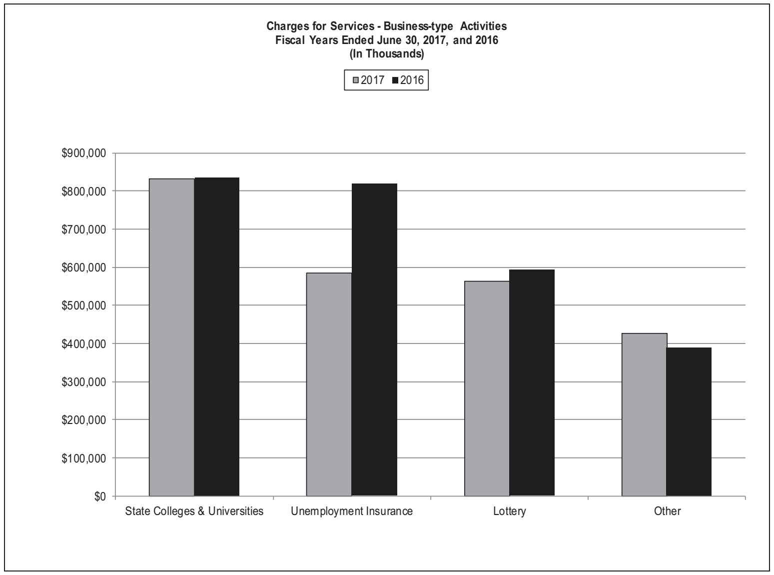




Business-type Activities

Net position for the state's proprietary funds decreased by $381 million during the current year compared to an increase of $293 million in the prior year. This resulted primarily from a $220 million decrease in net position in the State Colleges and Universities Fund and a $164 million decrease in net position in the Unemployment Insurance Fund.

The State Colleges and Universities Fund's net position decreased $220 million during the current year compared to an increase of $118 million in the prior year. Most of this was attributable to an increase in net pension expense. The Unemployment Insurance Fund's net position decreased $164 million during the current year compared to an increase of $61 million in the prior year. This was primarily attributed to a decrease in insurance premiums due to a premium reduction credit issued to employers in the current year.



Long-Term Liabilities

The state's total long-term liabilities increased by $10.8 billion (75.6 percent) during the current fiscal year. The increase in Net Pension Liability increase of $10.9 billion is the primary reason for the significant increase.

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 $9.9 billion, an increase of $794 million over the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $1.5 billion, a decrease of $43 million during the current year.

Because the General Fund is the chief operating fund of the state, some of the same variances impacting Governmental Activities impacted the General Fund. As previously noted, sales and individual income taxes grew slightly due to wage growth.

The General Fund expenditures for general education increased as a result of the two percent per pupil formula increase and a slight increase in the number of pupils. Economic and workforce development increased due to grants for the expansion of broadband to rural communities. General government decreased as due to a decrease in grants to the Minnesota Sports Facilities Authority (component unit). This decrease was partially offset by an increase due to a new health insurance premium assistance program. Public safety and corrections expenses increased as a result of an increase in healthcare costs for inmates and increase in costs for the Bureau of Criminal Apprehension's crime lab. Transportation expenses decreased due to delays in projects as well as cost savings due to competition between contractors and lower bituminous costs. In addition, Health and human services expenditures increased in the General Fund and Federal Fund as a result of an increase in enrollment and growth in costs for medical assistance. In addition, health and human services expenditures increased in the General Fund and decreased in the Health Care Access Fund (special revenue) due to the one-time shift of expenditures from the General Fund to the Health Care Access Fund in fiscal year 2016.

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 $381 million during the current year. This primarily resulted from a $220 million decrease in net position of the State Colleges and Universities Fund and a $164 million 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 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 2017. These are material to understanding changes in General Fund balances that occurred in fiscal year 2017. Both the Minnesota State Constitution (Article XI, section 6) and Minnesota Statutes, Section 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 2017.

Actions Establishing the Fiscal Year 2017 Budget

The budget for state fiscal year 2017 was adopted in May and June 2015. During the 2015 legislative session, the February 2015 Budget and Economic Forecast increased the projected budget balance for the 2016-17 biennium from $1.0 billion to $1.867 billion. General Fund revenues for 2016-17 biennium were forecast to be $44.3 billion and projected current law spending was expected to be $41.1 billion. Legislative actions during the 2015 regular and special sessions reduced the projected balance by $1.002 billion to $865 million. Legislative changes included $705 million in new spending, $132 million in higher revenue and transfers in, and $429 million in reduced resources carried forward from the 2014-15 biennium due to changes enacted impacting that budget period.

Changes to the General Fund included $526 million in new spending in E-12 education, largely due to 2 percent annual increase to the basic education formula, $174 million increase in higher education spending, $115 million higher spending for the courts and public safety, and a $51 million increase in economic development. The spending increases were offset by a $291 million spending decrease in health and human services largely due to a one-time cost shift to the Health Care Access Fund. Gains in resources included a transfer-in from the Closed Landfill Investment account of $63 million and minor tax changes.

After the 2015 legislative session, the enacted budget for fiscal year 2017 included $1.814 billion in carry forward from fiscal year 2016, $21.736 billion in General Fund revenues, $21.333 billion in General Fund spending, $1.344 billion in cash and budgetary reserves, $7 million in a stadium reserve account, and an $865 million ending budgetary balance.

Budget and Forecast Actions Impacting Fiscal Year 2017

The November 2015 Budget and Economic Forecast improved the budget outlook for the 2016-17 biennium by $1.006 billion. A favorable close to fiscal year 2015 increased resources carried forward by $682 million and the General Fund revenue forecast was increased $90 million. Spending estimates were reduced by $178 million. Statutory reserve allocations transferred $602 million of the balance to the budget reserve and $6 million to the stadium reserve, leaving an unallocated forecast balance of $1.206 billion. Higher sales and corporate income taxes estimates offset a lower individual income taxes forecast. Spending was reduced $178 million due to savings in health and human services spending that were offset partially by increases in other budget areas, including a higher E-12 forecast and statutory transfers to reimburse funds borrowed from other state funds to solve past budget issues.

The February 2016 Budget and Economic Forecast reduced General Fund revenues by $427 million and spending by $129 million. Those changes, offset by an $8 million increase in stadium reserves, reduced the 2016-17 biennium forecast balance by $306 million. The February forecast for fiscal year 2017 reflected $21.399 billion in General Fund resources, $21.123 billion in General Fund spending, $1.947 billion in cash and budget reserves, $21 million in the stadium reserve, and a $900 million budgetary balance.

The 2016 legislative session ended in May 2016. Changes enacted in the session included $67 million in revenue changes and $239 million in supplemental spending for the 2016-17 biennium. A number of the changes impacted the fiscal year 2017 budget. Revenue changes resulted in a $56 million increase for fiscal year 2017. Spending changes were made in most areas with significant increases in E-12 education, health and human services, public safety, environment, agriculture, economic development and state government. Reduced expected debt service expenditures due to a failure to enact a bonding bill partially offset the overall increase in spending. After accounting for all changes, fiscal year 2017 spending increases totaled $235 million. After the legislative changes, fiscal year 2017 General Fund revenues were estimated to be $21.455 billion. Fiscal year 2017 General Fund expenditures were projected to be $21.358 billion. The Legislature made no reserve changes in the 2016 legislative session.

The November 2016 Budget and Economic Forecast improved the budget outlook for the FY 2016-17 biennium by $286 million. General fund revenue was forecast to be $41 million higher than prior estimates for the biennium while spending estimates were reduced $245 million. Statutory reserve allocations transferred $334 million of the balance to the budget reserve and $3 million to the stadium reserve, leaving as unallocated forecast balance of $678 million. Early in the 2017 legislative session, two bills with significant fiscal impact in fiscal year 2017 were signed into law. The first conformed Minnesota tax law to certain federal tax law changes and resulted in a projected $22 million reduction in revenue. The second bill established a program to provide health insurance premium assistance including a $327 million appropriation and a $327 million reduction in the budget reserve balance. The net impact of these bills reduced the projected balance in fiscal year 2017 to $656 million.

The February 2017 Budget and Economic Forecast increased expected fiscal year 2017 revenue by $75 million and reduced spending estimates by $14 million. Those changes, offset by a $1 million increase in the stadium reserve account increased the expected available balance in fiscal year 2017 to $744 million.

The 2017 regular legislative session ended in May. Changes with budgetary impact on fiscal year 2017 were minimal. Revenue changes were less than a million and spending increases were $14 million. After the legislative session, fiscal year 2017 expenditures were expected to be $21.678 million and revenues were projected to reach $21.284 billion; reserves and carryforward were unchanged leaving a projected budgetary balance of $730 million.

Fiscal year 2017 officially closed in August 2017. Actual revenues for fiscal year 2017 were $21.334 billion, $50 million higher than end of session estimates. Tax revenue at close was $83 million lower while non-tax revenue was $82 million higher than forecast; $52 million in transfers and prior period adjustments accounted for the revenue gain compared to estimates. Spending for fiscal year 2017 was $21.103 billion, $575 million below previous estimates; however, $358 million of unspent appropriations in fiscal year 2017 were authorized to carryforward into fiscal year 2018. The budgetary balance for fiscal year 2017 was $995 million, $265 million higher than prior estimates.

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 measureable 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 2017 with a balance of $1.0 billion. On a GAAP basis, the General Fund reported a balance of $3.4 billion for fiscal year 2017, a difference of $2.4 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 $1.6 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 $798 million. 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.

Minnesota's budget outlook for the 2018-19 biennium has worsened in the November 2017 Forecast. The February 2017 forecast projected a $1.651 billion balance for 2018-19 before the Legislature took actions on the budget for the current biennium. The enacted budget, after adjusting for the Governor's veto of the House and Senate appropriations and subsequent court ordered temporary funding, reduced that balance to $163 million.

Resources in the 2018-19 biennium increased $625 million from 2016-17 biennium closing balances which included the $265 million increased balance, plus $358 million in appropriation carryforward and a $2 million reserve increase. Offsetting the gain was a $559 million (1.2 percent) reduced revenue forecast and a $398 million (0.9 percent) increased spending estimate. A statutory deposit from the assigned risk plan added $5 million to the budget reserve while higher gambling tax receipts increased the projected stadium reserve balance by $15 million. These changes reduced the projected budgetary balance by $351 million and resulted in a forecast deficit of $188 million.

Total General Fund revenues for the 2018-19 biennium were forecast to be $44.447 billion, $559 million (1.2 percent) less than the February 2017 forecast adjusted for law changes. Total tax revenues for the biennium were forecast to be $42.624 billion, $622 million (1.4 percent) below the prior estimate. Lower expected individual, sales, corporate, and state general property tax revenue more than offset increased forecasts for other tax and non-tax revenue.

Total spending for the 2018-19 biennium was forecast to be $45.955 billion, $398 million (0.9 percent) higher than end of session estimates.

The largest portion of the higher spending, $358 million, in the 2018-19 biennium was the result of unspent appropriations from the previous biennium that carried forward and available to be spent in the current biennium. The largest portion of that carryforward was $270 million for the health insurance premium subsidy and transition of care programs at Minnesota Management and Budget (MMB). Of that amount, $99 million was canceled in fiscal year 2018 with the November 2017 forecast, and then made available via contingent appropriations in the 2017 session for health and human services in the 2018-19 biennium ($33 million) and in the 2020-21 biennium ($65 million).

A higher forecast for special education drove the increase of $121 million (0.6 percent) in E-12 education. Spending on special education services by school districts increased at a faster rate than previously projected.

In health and human services (HHS), savings from lower spending for long term care ($114 million lower), lower average payments for elderly and disabled basic care ($56 million savings) and lower enrollment of disabled individuals in basic care ($56 million lower) was offset by increased General Fund obligations due to congressional failure to appropriate funding for the Children's Health Insurance Program (CHIP). The forecast included $178 million in additional medical assistance spending in the 2018-19 biennium since congress had not authorized funding for this program that provides federal funding for certain children's health care. These changes in addition to other smaller changes in HHS resulted in a minimal overall increase of $13 million (0.1 percent) for the 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, 2017, was $23.2 billion, less accumulated depreciation of $4.0 billion, resulting in a net book value of $19.2 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, 2017, and 2016
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Capital Assets not Depreciated:						
Land	$ 2,617,361	$ 2,569,638	$ 92,545	$ 92,412	$ 2,709,906	$ 2,662,050
Buildings, Structures, Improvements	326,736	41,443	-	-	326,736	41,443
Construction in Progress	312,287	432,217	75,564	173,728	387,851	605,945
Development in Progress	83,341	60,034	-	-	83,341	60,034
Infrastructure	10,628,583	10,179,574	-	-	10,628,583	10,179,574
Easements	406,787	383,371	-	-	406,787	383,371
Art and Historical Treasures	7,559	7,168	-	-	7,559	7,168
Total Capital Assets not Depreciated	$ 14,382,654	$ 13,673,445	$ 168,109	$ 266,140	$ 14,550,763	$ 13,939,585
Capital Assets Depreciated:						
Buildings, Structures, Improvements	$ 3,194,119	$ 3,134,263	$ 3,672,582	$ 3,459,873	$ 6,866,701	$ 6,594,136
Infrastructure	345,944	312,998	95	95	346,039	313,093
Internally Generated Computer Software	194,768	164,829	59,261	55,049	254,029	219,878
Easements	4,990	5,789	-	-	4,990	5,789
Library Collections	-	-	40,065	41,146	40,065	41,146
Equipment, Furniture, Fixtures	788,652	747,839	332,236	321,818	1,120,888	1,069,657
Total Capital Assets Depreciated	$ 4,528,473	$ 4,365,718	$ 4,104,239	$ 3,877,981	$ 8,632,712	$ 8,243,699
Less: Accumulated Depreciation	2,002,179	1,870,142	2,005,105	1,873,822	4,007,284	3,743,964
Capital Assets Net of Depreciation	$ 2,526,294	$ 2,495,576	$ 2,099,134	$ 2,004,159	$ 4,625,428	$ 4,499,735
Total	$ 16,908,948	$ 16,169,021	$ 2,267,243	$ 2,270,299	$ 19,176,191	$ 18,439,320

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 2016, indicated that the average PQI for principal arterial pavement was 3.5 and 3.3 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 2016, indicated that 95 percent of principal arterial system bridges and 95 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 for costs of capitalized roads and bridges were lower than budget due to delays in projects as well as cost savings due to competition between contractors and lower bituminous costs.

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, 2017, as follows:

- AAA by Fitch Ratings
- Aa1 by Moody's Investors Service
- AA+ by Standard & Poor's

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 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, 2017, and 2016
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General Obligation	$ 6,999,510	$ 7,043,943	$ 238,637	$ 253,671	$ 7,238,147	$ 7,297,614
Revenue	39,365	42,103	392,070	431,289	431,435	473,392
State General Fund Appropriation Bonds	1,090,895	1,128,706	-	-	1,090,895	1,128,706
Certificate of Participation	104,875	115,870	-	-	104,875	115,870
Total	$ 8,234,645	$ 8,330,622	$ 630,707	$ 684,960	$ 8,865,352	$ 9,015,582

During fiscal year 2017, the state issued the following bonds:

- $265.9 million in general obligation state various purpose bonds
- $215.0 million in general obligation state trunk highway bonds
- $7.5 million in general obligation Rural Finance Authority bonds
- $310.6 million in general obligation state various purpose refunding bonds
- $55.1 million in revenue bonds for capital assets for State Colleges and Universities
- $91.7 million in revenue refunding bonds for the statewide 911 emergency response communication system
- $11.8 million in Lewis and Clark Regional Water System state appropriation bonds

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/

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STATEMENT OF NET POSITION
JUNE 30, 2017
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 10,127,824	$ 2,592,835	$ 12,720,659	$ 1,340,939
Investments	2,558,774	21,910	2,580,684	583,943
Accounts Receivable	2,432,808	386,846	2,819,654	488,983
Due from Component Units	17,472	-	17,472	-
Due from Primary Government	-	-	-	111,345
Accrued Investment/Interest Income	25,306	-	25,306	32,154
Federal Aid Receivable	1,538,969	22,416	1,561,385	16,188
Inventories	40,885	25,001	65,886	52,206
Loans and Notes Receivable	17,020	4,413	21,433	444,733
Internal Balances	3,976	(3,976)	-	-
Other Assets	21,868	4,663	26,531	48,536
Total Current Assets	$ 16,784,902	$ 3,054,108	$ 19,839,010	$ 3,119,027
Noncurrent Assets:				
Cash and Cash Equivalents-Restricted	$ -	$ 75,072	$ 75,072	$ 818,295
Investments-Restricted	-	296	296	2,085,414
Accounts Receivable-Restricted	-	-	-	17,146
Due from Primary Government-Restricted	-	-	-	3,097
Due from Primary Government	-	-	-	4,864
Due from Component Units	53,337	-	53,337	-
Investments	-	-	-	4,947,686
Accounts Receivable	539,788	1,456	541,244	452,935
Loans and Notes Receivable	150,323	25,151	175,474	3,200,086
Depreciable Capital Assets (Net)	2,526,294	2,099,134	4,625,428	7,117,789
Nondepreciable Capital Assets	3,754,071	168,109	3,922,180	1,476,461
Infrastructure (Not depreciated)	10,628,583	-	10,628,583	-
Other Assets	5,667	-	5,667	46,778
Total Noncurrent Assets	$ 17,658,063	$ 2,369,218	$ 20,027,281	$ 20,170,551
Total Assets	$ 34,442,965	$ 5,423,326	$ 39,866,291	$ 23,289,578
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated Decrease in Fair Value of Hedging Derivatives	$ -	$ -	$ -	$ 5,264
Bond Refunding	-	2,323	2,323	15,252
Deferred Pension Outflows	7,942,864	1,458,774	9,401,638	2,251,046
Total Deferred Outflows of Resources	$ 7,942,864	$ 1,461,097	$ 9,403,961	$ 2,271,562
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 5,057,552	$ 263,497	$ 5,321,049	$ 392,175
Due to Component Units	48,282	6	48,288	-
Due to Primary Government	-	-	-	31,785
Unearned Revenue	294,311	103,402	397,713	124,829
Accrued Interest Payable	119,175	3,469	122,644	58,114
Bonds and Notes Payable	616,373	59,115	675,488	610,496
Capital Leases Payable	9,305	4,338	13,643	5,277
Certificates of Participation Payable	10,355	-	10,355	-
Claims Payable	175,809	12,800	188,609	98,637
Compensated Absences Payable	42,458	19,162	61,620	222,398
Other Liabilities	-	9,778	9,778	-
Total Current Liabilities	$ 6,373,620	$ 475,567	$ 6,849,187	$ 1,543,711
Noncurrent Liabilities:				
Accounts Payable-Restricted	$ -	$ -	$ -	$ 93,107
Unearned Revenue-Restricted	-	-	-	84,197
Accrued Interest Payable-Restricted	-	-	-	12,106
Due to Primary Government	-	-	-	53,337
Unearned Revenue	176,110	418	176,528	10,608
Interest Rate Swap Agreements	-	-	-	5,264
Bonds and Notes Payable	7,536,649	574,144	8,110,793	6,197,913
Due to Component Units	4,864	-	4,864	-
Capital Leases Payable	71,576	22,658	94,234	19,523
Certificates of Participation Payable	94,520	-	94,520	-
Claims Payable	577,844	2,078	579,922	544,955
Compensated Absences Payable	273,558	135,977	409,535	32,358
Other Postemployment Benefits	327,428	47,138	374,566	249,355
Net Pension Liability	12,284,176	2,169,911	14,454,087	3,216,188
Funds Held in Trust	-	-	-	335,352
Other Liabilities	-	27,993	27,993	45,457
Total Noncurrent Liabilities	$ 21,346,725	$ 2,980,317	$ 24,327,042	$ 10,899,720
Total Liabilities	$ 27,720,345	$ 3,455,884	$ 31,176,229	$ 12,443,431

STATE OF MINNESOTA

STATEMENT OF NET POSITION
JUNE 30, 2017
(IN THOUSANDS)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
DEFERRED INFLOWS OF RESOURCES				
Accumulated Increase in Fair Values of Derivatives	$ -	$ -	$ -	$ 935
Bond Refunding	52,472	4,127	56,599	1,769
Capital Lease Restructuring	14,542	-	14,542	-
Deferred Revenue	483,191	-	483,191	18,943
Deferred Pension Inflows	961,031	129,301	1,090,332	273,371
Total Deferred Inflows of Resources	$ 1,511,236	$ 133,428	$ 1,644,664	$ 295,018
NET POSITION				
Net Investment in Capital Assets	$ 12,659,739	$ 1,650,940	$ 14,310,679	$ 5,773,049
Restricted to:				
Improve Agricultural, Environmental and Energy Resources	$ 1,765,556	$ -	$ 1,765,556	$ -
Enhance Arts and Culture	18,662	-	18,662	-
Acquire, Maintain, and Improve Land and Buildings	-	503	503	-
Retire Indebtedness	489,613	117,935	607,548	-
Develop Economy and Workforce	170,596	4,265	174,861	-
Enhance E-12 Education	10,257	-	10,257	-
Enhance State Government	40,927	-	40,927	-
Enhance Health and Human Services	17,486	-	17,486	-
Enhance Higher Education	7	14,837	14,844	-
Enhance 911 Services and Increase Safety	49,824	20,364	70,188	-
School Aid-Expendable	8,455	-	8,455	-
School Aid-Nonexpendable	1,328,794	-	1,328,794	-
Construct Highways and Improve Infrastructure	1,623,485	-	1,623,485	-
Unemployment Benefits	-	1,677,206	1,677,206	-
Other Purposes	-	61,692	61,692	-
Component Units	-	-	-	6,712,960
Total Restricted	$ 5,523,662	$ 1,896,802	$ 7,420,464	$ 6,712,960
Unrestricted	$ (5,029,153)	$ (252,631)	$ (5,281,784)	$ 336,682
Total Net Position	$ 13,154,248	$ 3,295,111	$ 16,449,359	$ 12,822,691

The notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT: TOTAL	COMPONENT UNITS
Primary Government:								
Governmental Activities:								
Agricultural, Environmental and Energy Resources	$ 1,254,115	$ 430,333	$ 336,784	$ 11,247	$ (475,751)		$ (475,751)	
Economic and Workforce Development	806,872	58,317	222,364	-	(526,191)		(526,191)	
General Education	9,836,193	23,477	903,711	28	(8,908,977)		(8,908,977)	
General Government	1,589,095	340,021	36,531	-	(1,212,543)		(1,212,543)	
Health and Human Services	16,396,755	437,726	9,048,622	-	(6,910,407)		(6,910,407)	
Higher Education	987,375	-	583	-	(986,792)		(986,792)	
Intergovernment Aid	1,644,215	-	-	-	(1,644,215)		(1,644,215)	
Public Safety and Corrections	1,360,363	155,843	184,134	-	(1,020,386)		(1,020,386)	
Transportation	2,998,902	73,111	625,475	131,667	(2,168,649)		(2,168,649)	
Interest	291,679	-	-	-	(291,679)		(291,679)	
Total Governmental Activities	$ 37,165,564	$ 1,518,828	$ 11,358,204	$ 142,942	$ (24,145,590)		$ (24,145,590)	
Business-type Activities:								
State Colleges and Universities	$ 2,204,067	$ 833,494	$ 433,987	$ -		$ (936,586)	$ (936,586)	
Unemployment Insurance	785,137	585,523	7,431	-		(192,183)	(192,183)	
Lottery	429,843	563,507	-	-		133,664	133,664	
Other	476,329	425,935	15,579	-		(34,815)	(34,815)	
Total Business-type Activities	$ 3,895,376	$ 2,408,459	$ 456,997	$ -		$ (1,029,920)	$ (1,029,920)	
Total Primary Government	$ 41,060,940	$ 3,927,287	$ 11,815,201	$ 142,942	$ (24,145,590)	$ (1,029,920)	$ (25,175,510)	
Component Units:								
University of Minnesota	$ 4,180,858	$ 1,502,595	$ 993,782	$ 95,865				$ (1,588,616)
Metropolitan Council	1,262,636	376,315	498,438	221,550				(166,333)
Housing Finance	366,279	96,893	190,996	-				(78,390)
Others	537,974	181,514	53,499	224,046				(78,915)
Total Component Units	$ 6,347,747	$ 2,157,317	$ 1,736,715	$ 541,461				$ (1,912,254)
General Revenues:								
Taxes:								
Individual Income Taxes					$ 11,307,961	$ -	$ 11,307,961	$ -
Corporate Income Taxes					1,270,423	-	1,270,423	-
Sales Taxes					5,779,685	-	5,779,685	-
Property Taxes					850,240	-	850,240	-
Motor Vehicle Taxes					1,518,531	-	1,518,531	-
Fuel Taxes					917,834	-	917,834	-
Other Taxes					2,833,543	-	2,833,543	84,667
Tobacco Settlement					165,244	-	165,244	-
Unallocated Investment/Interest Income					66,639	45,797	112,436	356,296
Other Revenues					87,096	11,989	99,085	628,801
State Grants Not Restricted					-	-	-	996,148
Transfers					(591,268)	591,268	-	-
Total General Revenues and Transfers					$ 24,205,928	$ 649,054	$ 24,854,982	$ 2,065,912
Change in Net Position					$ 60,338	$ (380,866)	$ (320,528)	$ 153,658
Net Position, Beginning, as Reported					$ 12,989,300	$ 3,675,977	$ 16,665,277	$ 12,669,033
Prior Period Adjustments					104,610	-	104,610	-
Net Position, Beginning, as Restated					$ 13,093,910	$ 3,675,977	$ 16,769,887	$ 12,669,033
Net Position, Ending					$ 13,154,248	$ 3,295,111	$ 16,449,359	$ 12,822,691

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 4,819,473	$ 142,889	$ 4,824,024	$ 9,786,386
Investments	994,436	-	1,564,338	2,558,774
Accounts Receivable	2,326,808	254,813	385,839	2,967,460
Interfund Receivables	130,181	3,503	135,364	269,048
Due from Component Unit	6,563	-	64,246	70,809
Accrued Investment/Interest Income	19,563	-	5,743	25,306
Federal Aid Receivable	-	1,471,608	67,361	1,538,969
Inventories	-	-	40,649	40,649
Loans and Notes Receivable	58,978	4,677	103,688	167,343
Investment in Land	-	-	15,962	15,962
Total Assets	$ 8,356,002	$ 1,877,490	$ 7,207,214	$ 17,440,706
LIABILITIES				
Liabilities:				
Accounts Payable	$ 2,988,778	$ 1,613,327	$ 515,447	$ 5,117,552
Interfund Payables	99,302	36	66,804	166,142
Due to Component Unit	30,777	8,051	8,827	47,655
Unearned Revenue	176,110	247,800	3,170	427,080
Total Liabilities	$ 3,294,967	$ 1,869,214	$ 594,248	$ 5,758,429
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	$ 1,654,302	$ -	$ 121,503	$ 1,775,805
Total Deferred Inflows of Resources	$ 1,654,302	$ -	$ 121,503	$ 1,775,805
FUND BALANCES				
Fund Balances:				
Nonspendable	$ 1,034,219	$ -	$ 1,369,443	$ 2,403,662
Restricted	86,942	8,276	3,620,953	3,716,171
Committed	-	-	952,613	952,613
Assigned	757,056	-	548,454	1,305,510
Unassigned	1,528,516	-	-	1,528,516
Total Fund Balances	$ 3,406,733	$ 8,276	$ 6,491,463	$ 9,906,472
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 8,356,002	$ 1,877,490	$ 7,207,214	$ 17,440,706

The notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017
(IN THOUSANDS)

Total Fund Balance for Governmental Funds		$ 9,906,472
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	$ 10,628,583	
Nondepreciable Capital Assets	3,689,794	
Depreciable Capital Assets	4,366,080	
Accumulated Depreciation	(1,903,861)	
		16,780,596
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.		1,293,132
Deferred Inflows resulting from the refunding of debt and restructuring of capital leases included in the Statement of Net Position.		(67,014)
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.		(77,795)
Deferred pension outflows of $7,311,952 and inflows of $(895,256) resulting primarily from pension actuarial gains and losses to be amortized are included in the Statement of Net Position.		6,416,696
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	$ (119,148)	
General Obligation Bonds Payable	(6,174,315)	
State General Fund Appropriation Bonds Payable	(971,875)	
Revenue Bonds Payable	(39,365)	
Loans and Notes Payable	(769)	
Bond Premium Payable	(944,215)	
Due to Component Units	(5,491)	
Capital Leases Payable	(80,881)	
Certificate of Participation Payable	(93,120)	
Certificate of Participation Premium Payable	(11,755)	
Claims Payable	(663,961)	
Compensated Absences Payable	(283,767)	
Net Other Post-Employment Benefits	(325,955)	
Net Pension Liability	(11,383,222)	
		(21,097,839)
Net Position of Governmental Activities		$ 13,154,248

The notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
Net Revenues:				
Individual Income Taxes	$ 11,263,573	$ -	$ -	$ 11,263,573
Corporate Income Taxes	1,272,913	-	-	1,272,913
Sales Taxes	5,442,302	-	349,715	5,792,017
Property Taxes	848,463	-	-	848,463
Motor Vehicle Taxes	301,443	-	1,217,181	1,518,624
Fuel Taxes	-	-	917,956	917,956
Other Taxes	1,877,330	-	943,848	2,821,178
Tobacco Settlement	168,226	-	-	168,226
Federal Revenues	4,796	10,564,874	500,400	11,070,070
Licenses and Fees	233,905	5,283	368,564	607,752
Departmental Services	190,439	5,176	211,657	407,272
Investment/Interest Income	177,989	1,238	183,887	363,114
Other Revenues	330,477	42,468	327,496	700,441
Net Revenues	$ 22,111,856	$ 10,619,039	$ 5,020,704	$ 37,751,599
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources	$ 263,932	$ 163,460	$ 608,561	$ 1,035,953
Economic and Workforce Development	249,026	212,463	294,897	756,386
General Education	8,962,695	758,226	80,324	9,801,245
General Government	876,249	15,884	86,159	978,292
Health and Human Services	6,443,833	8,939,952	669,502	16,053,287
Higher Education	902,068	-	85,646	987,714
Intergovernmental Aid	1,644,033	-	182	1,644,215
Public Safety and Corrections	683,232	119,473	244,004	1,046,709
Transportation	452,701	244,455	2,075,386	2,772,542
Total Current Expenditures	$ 20,477,769	$ 10,453,913	$ 4,144,661	$ 35,076,343
Capital Outlay	52,135	113,194	705,266	870,595
Debt Service	27,341	-	1,011,874	1,039,215
Total Expenditures	$ 20,557,245	$ 10,567,107	$ 5,861,801	$ 36,986,153
Excess of Revenues Over (Under) Expenditures	$ 1,554,611	$ 51,932	$ (841,097)	$ 765,446
Other Financing Sources (Uses):				
Bond Issuance	$ -	$ -	$ 491,129	$ 491,129
Loan Proceeds	-	-	769	769
Issuance of Refunding Bonds	-	-	310,565	310,565
Payment to Refunded Bonds Escrow Agent	-	-	(310,565)	(310,565)
Bond Issue Premium	-	-	155,376	155,376
Transfers-In	402,721	1,391	1,090,700	1,494,812
Transfers-Out	(1,597,690)	(55,790)	(460,102)	(2,113,582)
Net Other Financing Sources (Uses)	$ (1,194,969)	$ (54,399)	$ 1,277,872	$ 28,504
Net Change in Fund Balances	$ 359,642	$ (2,467)	$ 436,775	$ 793,950
Fund Balances, Beginning, as Reported	$ 3,047,091	$ 10,743	$ 6,054,688	$ 9,112,522
Fund Balances, Ending	$ 3,406,733	$ 8,276	$ 6,491,463	$ 9,906,472

The notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

Net Change in Fund Balances for Governmental Funds	$ 793,950
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 depreciation of $156,057 in the current period.	714,538
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.	(16,119)
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.	(79,437)
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.	(9,268)
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.	(957,839)
Net changes due to the additions and amortization of deferred inflows related to the refunding of debt and restructuring of capital leases reported in the Statement of Activities.	(3,595)
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.	(1,388,742)
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.	1,064,346
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.	(57,496)
Change in Net Position of Governmental Activities	$ 60,338

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, 2017 (IN THOUSANDS)

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Net Revenues:			
Individual Income Taxes	$ 11,122,600	$ 11,187,700	$ 10,931,183
Corporate Income Taxes	1,226,559	1,142,224	1,205,378
Sales Taxes	5,461,389	5,324,255	5,381,235
Property Taxes	847,399	838,331	858,390
Motor Vehicle Taxes	650	-	-
Other Taxes	1,839,073	1,823,873	1,856,401
Tobacco Settlements	160,252	158,453	168,226
Licenses and Fees	180,658	214,853	225,295
Departmental Services	118,570	79,035	93,398
Investment/Interest Income	13,051	26,042	37,144
Other Revenues	295,389	313,419	354,085
Net Revenues	$ 21,265,590	$ 21,108,185	$ 21,110,735
Expenditures:			
Agricultural, Environmental and Energy Resources	$ 217,086	$ 221,268	$ 216,541
Economic and Workforce Development	205,520	208,698	202,820
General Education	8,908,094	8,958,593	8,955,254
General Government	888,759	945,322	931,964
Health and Human Services	6,276,926	6,085,835	5,796,269
Higher Education	875,587	875,898	875,693
Intergovernment Aid	1,650,701	1,650,701	1,650,667
Public Safety and Corrections	703,083	718,492	713,497
Transportation	128,186	129,760	128,716
Total Expenditures	$ 19,853,942	$ 19,794,567	$ 19,471,421
Excess of Revenues Over (Under) Expenditures	$ 1,411,648	$ 1,313,618	$ 1,639,314
Other Financing Sources (Uses):			
Transfers-In	$ 229,686	$ 226,367	$ 226,653
Transfers-Out	(1,695,910)	(1,707,460)	(1,707,460)
Net Other Financing Sources (Uses)	$ (1,466,224)	$ (1,481,093)	$ (1,480,807)
Net Change in Fund Balances	$ (54,576)	$ (167,475)	$ 158,507
Fund Balances, Beginning, as Reported	$ 3,147,685	$ 3,147,685	$ 3,147,685
Prior Period Adjustments	-	-	87,401
Fund Balances, Beginning, as Restated	$ 3,147,685	$ 3,147,685	$ 3,235,086
Budgetary Fund Balances, Ending	$ 3,093,109	$ 2,980,210	$ 3,393,593
Less: Appropriation Carryover	-	-	361,657
Less: Reserved for Long-Term Receivables	-	-	22,151
Less: Budgetary Reserve	-	-	1,980,264
Unassigned Fund Balance, Ending	$ 3,093,109	$ 2,980,210	$ 1,029,521

The notes are an integral part of the financial statements.

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PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 926,120	$ 1,457,954	$ 208,761	$ 2,592,835	$ 341,438
Investments	21,910	-	-	21,910	-
Accounts Receivable	55,064	303,829	27,953	386,846	124,377
Interfund Receivables	30,622	-	4,167	34,789	-
Federal Aid Receivable	20,165	430	1,821	22,416	-
Inventories	16,609	-	8,392	25,001	236
Loans and Notes Receivable	4,413	-	-	4,413	-
Prepaid Expenses	3,430	-	1,233	4,663	21,868
Total Current Assets	$ 1,078,333	$ 1,762,213	$ 252,327	$ 3,092,873	$ 487,919
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 75,072	$ -	$ -	$ 75,072	$ -
Investments-Restricted	296	-	-	296	-
Accounts Receivable	-	-	1,456	1,456	-
Loans and Notes Receivable	25,151	-	-	25,151	-
Depreciable Capital Assets (Net)	1,919,922	-	179,212	2,099,134	64,075
Nondepreciable Capital Assets	151,187	-	16,922	168,109	48,315
Prepaid Expenses	-	-	-	-	5,667
Total Noncurrent Assets	$ 2,171,628	$ -	$ 197,590	$ 2,369,218	$ 118,057
Total Assets	$ 3,249,961	$ 1,762,213	$ 449,917	$ 5,462,091	$ 605,976
DEFERRED OUTFLOWS OF RESOURCES					
Bond Refunding	$ 2,323	$ -	$ -	$ 2,323	$ -
Deferred Pension Outflows	1,240,096	-	218,678	1,458,774	630,912
Total Deferred Outflows of Resources	$ 1,242,419	$ -	$ 218,678	$ 1,461,097	$ 630,912
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 166,528	$ 23,959	$ 73,010	$ 263,497	$ 59,461
Interfund Payables	-	14,152	24,613	38,765	98,710
Due to Component Unit	-	-	6	6	-
Unearned Revenue	51,137	46,896	5,369	103,402	43,859
Accrued Interest Payable	3,171	-	298	3,469	27
Bonds and Notes Payable	39,513	-	19,602	59,115	9,225
Capital Leases Payable	4,338	-	-	4,338	-
Claims Payable	2,539	-	10,261	12,800	89,692
Compensated Absences Payable	17,104	-	2,058	19,162	3,584
Other Liabilities	9,778	-	-	9,778	-
Total Current Liabilities	$ 294,108	$ 85,007	$ 135,217	$ 514,332	$ 304,558
Noncurrent Liabilities:					
Unearned Revenue	$ -	$ -	$ 418	$ 418	$ -
Bonds and Notes Payable	515,415	-	58,729	574,144	13,258
Capital Leases Payable	22,658	-	-	22,658	-
Claims Payable	2,078	-	-	2,078	-
Compensated Absences Payable	124,743	-	11,234	135,977	28,665
Other Postemployment Benefits	43,580	-	3,558	47,138	1,473
Net Pension Liability	1,844,012	-	325,899	2,169,911	900,954
Other Liabilities	27,993	-	-	27,993	-
Total Noncurrent Liabilities	$ 2,580,479	$ -	$ 399,838	$ 2,980,317	$ 944,350
Total Liabilities	$ 2,874,587	$ 85,007	$ 535,055	$ 3,494,649	$ 1,248,908
DEFERRED INFLOWS OF RESOURCES					
Bond Refunding	$ 4,127	$ -	$ -	$ 4,127	$ -
Deferred Pension Inflows	106,219	-	23,082	129,301	65,775
Total Deferred Inflows of Resources	$ 110,346	$ -	$ 23,082	$ 133,428	$ 65,775
NET POSITION					
Net Investment in Capital Assets	$ 1,526,372	$ -	$ 124,568	$ 1,650,940	$ 89,907
Restricted for:					
Bond Covenants	$ 68,977	$ -	$ -	$ 68,977	$ -
Capital Projects	503	-	-	503	-
Debt Service	48,958	-	-	48,958	-
Economic and Workforce Development	-	-	4,265	4,265	-
Higher Education	14,837	-	-	14,837	-
Public Safety and Corrections	-	-	20,364	20,364	-
Unemployment Benefits	-	1,677,206	-	1,677,206	-
Other Purposes	-	-	61,692	61,692	-
Total Restricted	$ 133,275	$ 1,677,206	$ 86,321	$ 1,896,802	$ -
Unrestricted	$ (152,200)	$ -	$ (100,431)	$ (252,631)	$ (167,702)
Total Net Position	$ 1,507,447	$ 1,677,206	$ 110,458	$ 3,295,111	$ (77,795)

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues:					
Tuition and Fees	$ 704,540	$ -	$ -	$ 704,540	$ -
Restricted Student Payments, Net	113,509	-	-	113,509	-
Net Sales	-	-	833,527	833,527	546,639
Insurance Premiums	-	574,715	119,810	694,525	906,471
Other Income	15,445	10,808	36,105	62,358	10,570
Total Operating Revenues	$ 833,494	$ 585,523	$ 989,442	$ 2,408,459	$ 1,463,680
Less: Cost of Goods Sold	-	-	418,056	418,056	-
Gross Margin	$ 833,494	$ 585,523	$ 571,386	$ 1,990,403	$ 1,463,680
Operating Expenses:					
Purchased Services	$ 231,839	$ -	$ 78,698	$ 310,537	$ 220,860
Salaries and Fringe Benefits	1,568,310	-	217,221	1,785,531	414,759
Student Financial Aid	45,424	-	-	45,424	-
Unemployment Benefits	-	775,914	-	775,914	-
Claims	-	-	99,665	99,665	805,832
Depreciation and Amortization	128,354	-	19,235	147,589	16,404
Supplies and Materials	128,634	-	8,506	137,140	23,638
Repairs and Maintenance	27,323	-	1,551	28,874	17,908
Indirect Costs	-	-	5,251	5,251	2,528
Other Expenses	41,179	-	10,139	51,318	2,729
Total Operating Expenses	$ 2,171,063	$ 775,914	$ 440,266	$ 3,387,243	$ 1,504,658
Operating Income (Loss)	$ (1,337,569)	$ (190,391)	$ 131,120	$ (1,396,840)	$ (40,978)
Nonoperating Revenues (Expenses):					
Investment Income	$ 10,151	$ 34,412	$ 1,234	$ 45,797	$ 2,993
Federal Grants	298,244	-	15,579	313,823	-
Private Grants	28,825	-	-	28,825	-
Grants and Subsidies	106,918	7,431	-	114,349	-
Other Nonoperating Revenues	-	-	12,183	12,183	334
Interest and Financing Costs	(21,232)	-	(1,953)	(23,185)	(890)
Grants, Aids and Subsidies	(11,772)	(9,223)	(20,504)	(41,499)	-
Other Nonoperating Expenses	-	-	(25,393)	(25,393)	(7,529)
Gain (Loss) on Disposal of Capital Assets	(215)	-	21	(194)	(407)
Total Nonoperating Revenues (Expenses)	$ 410,919	$ 32,620	$ (18,833)	$ 424,706	$ (5,499)
Income (Loss) Before Transfers and Contributions	$ (926,650)	$ (157,771)	$ 112,287	$ (972,134)	$ (46,477)
Capital Contributions	31,936	-	-	31,936	-
Transfers-In	674,824	-	32,190	707,014	-
Transfers-Out	-	(5,731)	(141,951)	(147,682)	(32,960)
Change in Net Position	$ (219,890)	$ (163,502)	$ 2,526	$ (380,866)	$ (79,437)
Net Position, Beginning, as Reported	$ 1,727,337	$ 1,840,708	$ 107,932	$ 3,675,977	$ 1,642
Net Position, Ending	$ 1,507,447	$ 1,677,206	$ 110,458	$ 3,295,111	$ (77,795)

The notes are an integral part of the financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	ENTERPRISE FUNDS				
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers	$ 848,330	$ 607,562	$ 958,938	$ 2,414,830	$ 1,445,273
Receipts from Other Revenues	-	-	46,795	46,795	10,459
Receipts from Repayment of Program Loans	4,518	-	-	4,518	-
Financial Aid Disbursements	(46,163)	-	-	(46,163)	-
Payments to Claimants	-	(772,057)	(448,415)	(1,220,472)	(794,498)
Payments to Suppliers	(433,134)	-	(146,554)	(579,688)	(264,262)
Payments to Employees	(1,324,776)	-	(168,813)	(1,493,589)	(274,963)
Payments to Others	-	-	(54,185)	(54,185)	(14,074)
Payments of Program Loans	(4,040)	-	-	(4,040)	-
Net Cash Flows from Operating Activities	$ (955,265)	$ (164,495)	$ 187,766	$ (931,994)	$ 107,935
Cash Flows from Noncapital Financing Activities:					
Grant Receipts	$ 416,514	$ 7,777	$ 20,400	$ 444,691	$ -
Grant Disbursements	(12,083)	(9,610)	(20,504)	(42,197)	-
Transfers-In	674,824	-	32,190	707,014	-
Transfers-Out	-	(6,551)	(137,171)	(143,722)	(32,960)
Advances from Other Funds	-	-	-	-	37,651
Repayment of Advances from Other Funds	-	-	(1,132)	(1,132)	-
Proceeds from Bonds	-	-	100,170	100,170	-
Repayment of Bond Principal	-	-	(121,660)	(121,660)	-
Interest Paid	-	-	(12,351)	(12,351)	-
Net Cash Flows from Noncapital Financing Activities	$ 1,079,255	$ (8,384)	$ (140,058)	$ 930,813	$ 4,691
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	$ 35,814	$ -	$ -	$ 35,814	$ -
Investment in Capital Assets	(112,150)	-	(17,997)	(130,147)	(61,377)
Proceeds from Disposal of Capital Assets	635	-	116	751	2,086
Proceeds from Capital Bonds	72,753	-	-	72,753	-
Proceeds from Loans	-	-	-	-	11,617
Capital Lease Payments	(4,275)	-	-	(4,275)	-
Repayment of Loan Principal	(600)	-	-	(600)	(12,471)
Repayment of Bond Principal	(90,884)	-	(165)	(91,049)	-
Interest Paid	(21,149)	-	(15)	(21,164)	(889)
Net Cash Flows from Capital and Related Financing Activities	$ (119,856)	$ -	$ (18,061)	$ (137,917)	$ (61,034)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	$ 2,539	$ -	$ -	$ 2,539	$ -
Purchase of Investments	(546)	-	-	(546)	-
Investment Earnings	6,399	34,412	1,236	42,047	2,993
Net Cash Flows from Investing Activities	$ 8,392	$ 34,412	$ 1,236	$ 44,040	$ 2,993
Net Increase (Decrease) in Cash and Cash Equivalents	$ 12,526	$ (138,467)	$ 30,883	$ (95,058)	$ 54,585
Cash and Cash Equivalents, Beginning, as Reported	$ 988,666	$ 1,596,421	$ 177,878	$ 2,762,965	$ 286,853
Cash and Cash Equivalents, Ending	$ 1,001,192	$ 1,457,954	$ 208,761	$ 2,667,907	$ 341,438

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(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)	$ (1,337,569)	$ (190,391)	$ 131,120	$ (1,396,840)	$ (40,978)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:					
Depreciation and Amortization	$ 128,354	$ -	$ 19,235	$ 147,589	$ 16,404
Miscellaneous Nonoperating Revenues	-	-	12,170	12,170	334
Miscellaneous Nonoperating Expenses	-	-	(25,393)	(25,393)	(7,529)
Loan Principal Repayments	4,518	-	-	4,518	-
Loans Issued	(4,040)	-	-	(4,040)	-
Provision for Loan Defaults	74	-	-	74	-
Loans Forgiven	374	-	-	374	-
Change in Assets, Liabilities, Deferred Outflows and Inflows:					
Accounts Receivable	5,527	(1,047)	3,557	8,037	(14,173)
Inventories	(164)	-	868	704	(78)
Other Assets	-	-	36	36	(10,474)
Deferred Pension Outflows	(1,173,418)	-	(209,750)	(1,383,168)	(617,502)
Accounts Payable	(1,574)	(466)	(4,094)	(6,134)	9,573
Claims Payable	-	-	(167)	(167)	9,782
Compensated Absences Payable	2,900	-	(627)	2,273	5,861
Unearned Revenues	9,308	27,321	2,292	38,921	5,440
Net Pension Liability	1,479,249	-	274,381	1,753,630	796,049
Other Liabilities	1,331	88	701	2,120	377
Deferred Pension Inflows	(70,135)	-	(16,563)	(86,698)	(45,151)
Net Reconciling Items to be Added to (Deducted from) Operating Income	$ 382,304	$ 25,896	$ 56,646	$ 464,846	$ 148,913
Net Cash Flows from Operating Activities	$ (955,265)	$ (164,495)	$ 187,766	$ (931,994)	$ 107,935
Noncash Investing, Capital and Financing Activities:					
Capital Assets Acquired Through Leases/Loans	7,946	-	-	7,946	-
Capital Asset Donations	6,523	-	-	6,523	-
Bond Premium Amortization	4,173	-	10,294	14,467	-

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST	AGENCY
ASSETS			
Cash and Cash Equivalent Investments	$ 48,704	$ -	$ 123,668
Investment Pools, at fair value:			
Cash Equivalent Investments	$ 3,458,726	$ 45,370	$ -
Investments	71,291,924	917,767	-
Accrued Interest and Dividends	138,784	2,007	-
Securities Trades Receivables (Payables)	(871,228)	(6,342)	-
Total Investment Pool Participation	$ 74,018,206	$ 958,802	$ -
Receivables:			
Accounts Receivable	$ -	$ -	$ 36,405
Interfund Receivables	7,483	-	-
Other Receivables	124,986	-	-
Total Receivables	$ 132,469	$ -	$ 36,405
Securities Lending Collateral	$ 6,744,325	$ 75,145	$ -
Depreciable Capital Assets (Net)	48,153	-	-
Nondepreciable Capital Assets	429	-	-
Total Assets	$ 80,992,286	$ 1,033,947	$ 160,073
LIABILITIES			
Accounts Payable	$ 26,208	$ -	$ 160,073
Interfund Payables	7,703	-	-
Accrued Expense	41	-	-
Revenue Bonds Payable	14,586	-	-
Bond Interest	11	-	-
Compensated Absences Payable	2,828	-	-
Securities Lending Liabilities	6,744,325	75,145	-
Other Liabilities	2,277	-	-
Total Liabilities	$ 6,797,979	$ 75,145	$ 160,073
NET POSITION			
Net Position Held in Trust for Pension Benefits and Pool Participants	$ 74,194,307	$ 958,802	$ -

The notes are an integral part of the financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017
(IN THOUSANDS)

	PENSION TRUST	INVESTMENT TRUST
Additions:		
Contributions:		
Employer	$ 1,303,849	$ -
Member	1,528,963	-
Contributions From Other Sources	11,867	-
Participating Plans	-	16,788
Total Contributions	$ 2,844,679	$ 16,788
Net Investment Income (Loss):		
Investment Income (Loss)	$ 9,633,454	$ 124,956
Less: Investment Expenses	(71,548)	(401)
Net Investment Income (Loss)	$ 9,561,906	$ 124,555
Securities Lending Revenues (Expenses):		
Securities Lending Income	$ 96,668	$ 1,206
Securities Lending Rebates and Fees	(54,002)	(669)
Net Securities Lending Revenue	$ 42,666	$ 537
Total Investment Income (Loss)	$ 9,604,572	$ 125,092
Transfers-In	$ 108,390	$ -
Other Additions	12,487	-
Total Additions	$ 12,570,128	$ 141,880
Deductions:		
Benefits	$ 4,813,459	$ -
Refunds and Withdrawals	335,841	46,984
Administrative Expenses	55,970	68
Transfers-Out	47,928	-
Total Deductions	$ 5,253,198	$ 47,052
Net Increase (Decrease)	$ 7,316,930	$ 94,828
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported	$ 66,867,194	$ 867,872
Change in Reporting Entity	6,285	-
Change in Fund Structure	3,898	(3,898)
Net Position Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated	$ 66,877,377	$ 863,974
Net Position Held in Trust for Pension Benefits and Pool Participants, Ending	$ 74,194,307	$ 958,802

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2016, and JUNE 30, 2017
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 66,475	$ 131,465	$ 480,644	$ 662,355	$ 1,340,939
Investments	40,145	14,767	212,640	316,391	583,943
Accounts Receivable	1,838	35,211	406,783	45,151	488,983
Due from Primary Government	1,001	94,620	15,028	696	111,345
Accrued Investment/Interest Income	11,646	1,998	2,114	16,396	32,154
Federal Aid Receivable	2,103	12,030	-	2,055	16,188
Inventories	-	32,083	20,075	48	52,206
Loans and Notes Receivable	202,911	-	10,939	230,883	444,733
Prepaid Expenses	-	-	-	5,446	5,446
Other Assets	1,229	1,992	39,855	14	43,090
Total Current Assets	$ 327,348	$ 324,166	$ 1,188,078	$ 1,279,435	$ 3,119,027
Noncurrent Assets:					
Cash and Cash Equivalents-Restricted	$ 372,709	$ 151,302	$ 49,193	$ 245,091	$ 818,295
Investments-Restricted	1,937,613	19	120,007	27,775	2,085,414
Accounts Receivable-Restricted	-	17,146	-	-	17,146
Due from Primary Government-Restricted	-	3,097	-	-	3,097
Due from Primary Government	-	-	-	4,864	4,864
Investments	-	557,038	4,378,929	11,719	4,947,686
Accounts Receivable	-	-	146,337	306,598	452,935
Loans and Notes Receivable	868,147	45,111	74,520	2,212,308	3,200,086
Depreciable Capital Assets (Net)	3,845	3,501,077	2,548,516	1,064,351	7,117,789
Nondepreciable Capital Assets	-	784,385	658,562	33,514	1,476,461
Prepaid Expenses	-	-	-	1,831	1,831
Other Assets	-	-	44,947	-	44,947
Total Noncurrent Assets	$ 3,182,314	$ 5,059,175	$ 8,021,011	$ 3,908,051	$ 20,170,551
Total Assets	$ 3,509,662	$ 5,383,341	$ 9,209,089	$ 5,187,486	$ 23,289,578
DEFERRED OUTFLOWS OF RESOURCES					
Accumulated Decrease in Fair Value of Hedging Derivatives	$ 5,264	$ -	$ -	$ -	$ 5,264
Bond Refunding	137	-	-	15,115	15,252
Deferred Pension Outflows	53,275	850,672	1,328,796	18,303	2,251,046
Total Deferred Outflows of Resources	$ 58,676	$ 850,672	$ 1,328,796	$ 33,418	$ 2,271,562
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 9,740	$ 103,172	$ 250,446	$ 28,817	$ 392,175
Due to Primary Government	-	-	2,790	28,995	31,785
Unearned Revenue	-	14,241	62,552	48,036	124,829
Accrued Interest Payable	24,523	2,749	15,549	15,293	58,114
Bonds and Notes Payable	77,545	129,237	319,445	84,269	610,496
Capital Leases Payable	-	825	4,404	48	5,277
Claims Payable	-	7,237	38,766	52,634	98,637
Compensated Absences Payable	294	24,190	197,775	139	222,398
Total Current Liabilities	$ 112,102	$ 281,651	$ 891,727	$ 258,231	$ 1,543,711
Noncurrent Liabilities:					
Accounts Payable-Restricted	$ -	$ 38,845	$ 54,262	$ -	$ 93,107
Unearned Revenue-Restricted	-	84,020	-	177	84,197
Accrued Interest Payable-Restricted	-	12,106	-	-	12,106
Due to Primary Government	-	-	8,534	44,803	53,337
Unearned Revenue	-	-	86	10,522	10,608
Interest Rate Swap Agreements	5,264	-	-	-	5,264
Bonds and Notes Payable	2,291,978	1,391,729	1,150,614	1,363,592	6,197,913
Capital Leases Payable	-	6,260	13,033	230	19,523
Claims Payable	-	9,825	13,235	521,895	544,955
Compensated Absences Payable	2,063	7,064	22,456	775	32,358
Other Postemployment Benefits	300	92,247	156,722	86	249,355
Net Pension Liability	76,077	1,204,964	1,908,870	26,277	3,216,188
Funds Held in Trust	78,345	-	256,809	198	335,352
Other Liabilities	-	-	45,192	265	45,457
Total Noncurrent Liabilities	$ 2,454,027	$ 2,847,060	$ 3,629,813	$ 1,968,820	$ 10,899,720
Total Liabilities	$ 2,566,129	$ 3,128,711	$ 4,521,540	$ 2,227,051	$ 12,443,431
DEFERRED INFLOWS OF RESOURCES					
Accumulated Increase in Fair Values of Derivatives	$ -	$ 935	$ -	$ -	$ 935
Bond Refunding	-	-	1,769	-	1,769
Deferred Revenue	13,993	4,950	-	-	18,943
Deferred Pension Inflows	5,554	93,113	172,273	2,431	273,371
Total Deferred Inflows of Resources	$ 19,547	$ 98,998	$ 174,042	$ 2,431	$ 295,018
NET POSITION					
Net Investment in Capital Assets	$ 3,845	$ 2,922,175	$ 1,749,543	$ 1,097,486	$ 5,773,049
Restricted-Expendable	978,817	329,707	2,107,900	1,809,986	5,226,410
Restricted-Nonexpendable	-	-	1,486,550	-	1,486,550
Unrestricted	-	(245,578)	498,310	83,950	336,682
Total Net Position	$ 982,662	$ 3,006,304	$ 5,842,303	$ 2,991,422	$ 12,822,691

The notes are an integral part of the financial statements.

COMPONENT UNIT FUNDS
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016, and JUNE 30, 2017
(IN THOUSANDS)

	HOUSING FINANCE AGENCY	METROPOLITAN COUNCIL	UNIVERSITY OF MINNESOTA	NONMAJOR COMPONENT UNITS	TOTAL COMPONENT UNITS
Net Expenses:					
Total Expenses	$ 366,279	$ 1,262,636	$ 4,180,858	$ 537,974	$ 6,347,747
Program Revenues:					
Charges for Services	$ 96,893	$ 376,315	$ 1,502,595	$ 181,514	$ 2,157,317
Operating Grants and Contributions	190,996	498,438	993,782	53,499	1,736,715
Capital Grants and Contributions	-	221,550	95,865	224,046	541,461
Net (Expense) Revenue	$ (78,390)	$ (166,333)	$ (1,588,616)	$ (78,915)	$ (1,912,254)
General Revenues:					
Taxes	$ -	$ 81,859	$ -	$ 2,808	$ 84,667
Investment Income	-	30,545	318,950	6,801	356,296
Other Revenues	481	-	617,309	11,011	628,801
Total General Revenues before Grants	$ 481	$ 112,404	$ 936,259	$ 20,620	$ 1,069,764
State Grants Not Restricted	$ 62,200	$ -	$ 650,749	$ 283,199	$ 996,148
Total General Revenues	$ 62,681	$ 112,404	$ 1,587,008	$ 303,819	$ 2,065,912
Change in Net Position	$ (15,709)	$ (53,929)	$ (1,608)	$ 224,904	$ 153,658
Net Position, Beginning, as Reported	$ 998,371	$ 3,060,233	$ 5,843,911	$ 2,766,518	$ 12,669,033
Net Position, Ending	$ 982,662	$ 3,006,304	$ 5,842,303	$ 2,991,422	$ 12,822,691

The notes are an integral part of the financial statements.

Index of Notes to the Financial Statements

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, 2017:

- GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets, not within the Scope of GASB 68” was issued in June 2015. This statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments. The intent is to provide better decision making information and create more transparency for all postemployment benefits. This statement has no impact on the state.

- GASB Statement No. 74 “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” was issued in June 2015. This statement results from a more comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits, including defined contribution plans, with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Since the state does not have any resources for postemployment benefits other than pensions in a trust, this statement has no impact on the state.

- GASB Statement No. 77 “Tax Abatement Disclosures” was issued in August 2015. This statement provides all users of the state and local government financial statements with information to assist in assessing (1) whether a government’s current-year revenues are sufficient to pay current-year services, (2) whether a government complied with finance related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. See Note 20 – Tax Abatements for further information.

- GASB Statement No. 80 “Blending Requirements for Certain Component Units” was issued in January 2016. This statement clarifies the financial statement presentation requirements for certain component units. It amends the blending requirement established in paragraph 53 of statement No. 14 by requiring blending of component units incorporated as not-for-profit corporations where the primary government is the sole member. This statement has no impact on the state.

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 resources 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.

- National Sports Center Foundation (NSCF) – The Minnesota Amateur Sports Commission (MASC), consisting of 14 members 9 of which 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 state 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.

- Minnesota Sports Facilities Authority (MSFA) – MSFA's mission is to provide for the construction, financing, and long-term use of a new 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. MSFA has five members, including a chair and two members who are appointed by the governor. The state provides administrative funding to MSFA. The fiscal year for MSFA ends June 30. This is a change from prior years, when the fiscal year ended December 31. Therefore, MSFA's financial statements presented in this report include 18 months of activity.

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	Office of Higher Education 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108-5227
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55454-1075	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite W820 St. Paul, Minnesota 55101-1378
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449-4500	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 5600 West 83rd Street 8200 Tower, Suite 1100 Minneapolis, Minnesota 55437-1062
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101-1805	Minnesota Sports Facilities Authority 1005 4th Street South Minneapolis, Minnesota 55415-1752

In fiscal year 2018, the Minnesota Comprehensive Health Association (MCHA) will become a new component unit of the state. MCHA administers the state-based reinsurance program referred to as the Minnesota Premium Security Plan. This program was created to stabilize health insurance premiums in Minnesota's individual market. The board is comprised of 13 members: six selected by contributing members, subject to the approval of the Department of Commerce; two selected by the Department of Human Services; and five selected by the Department of Commerce. The state has appropriated funding for the program and has the ability to approve or reject the parameters for making payments to health carriers.

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	Minnesota State Retirement System 60 Empire Drive, Suite 300 St. Paul, Minnesota 55103-1888
Public Employees Retirement Association 60 Empire Drive, Suite 200 St. Paul, Minnesota 55103-1890	Teachers Retirement Association 60 Empire Drive, Suite 400 St. Paul, Minnesota 55103-1889
State Board of Investment 60 Empire Drive, Suite 355 St. Paul, Minnesota 55103-1888	Minnesota State Colleges and Universities Financial Reporting Unit 500 Wells Fargo Place, 30 East 7th Street St. Paul, Minnesota 55101-4914

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 it's 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 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 resources measurement focus, all economic resources and obligations of the reporting government, both current and long-term, are reported in the government-wide 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 statements are presented using a different measurement focus and basis of accounting than used in the governmental column in the government-wide 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 agency). 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 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 general obligation 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 Agency 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 Agency 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. In addition, revenues collected in advance, including certain federal grant revenues to which the state does not yet have legal entitlement, are also reported as deferred revenue until the related commitment arises, at which time revenue is recognized. 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 – Laws of Minnesota Special Session 2001 established 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, 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. Agency funds use the accrual basis of accounting but do not have a measurement focus because agency funds do not recognize revenues and expenses.

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 derivatives 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.

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, $30,000 for equipment, $300,000 for 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 historic 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, 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

Contributions to pension plans subsequent to the measurement date of the net pension liability and before the fiscal year end are reported as deferred outflows of resources. In addition, amounts related to the increases in the net pension 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 are reported as deferred outflows of resources. These amounts are amortized as pension expense over the average of the expected remaining service lives of all employees of the applicable pension 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 amount of the debt issued is 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 statements. In addition, differences between the reacquisition price and the net carrying amounts on refunding general obligation bonds 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 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 are reported as deferred inflows of resources. These amounts are amortized as pension expense over the average of the expected remaining service lives of all employees of the applicable pension 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 revenues 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 statements. Internal service fund activity from external customers is reported under governmental activities in the government-wide 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 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, Section 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, Chapters 11A and 356A. Minnesota Statutes, Section 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 analyses 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, Section 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 derivatives are exchange traded. The purpose of the SBI derivative 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 derivatives are reported as investment income. The June 30, 2017, fair value of investment derivatives 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, 2017, the SGIC had a portfolio of well diversified high quality investment grade fixed income securities with a fair value of $1,486,261,000 that is $11,892,000 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 $90,941,000.

The following table summarizes, by derivative type, the investment derivative activity, and June 30 positions for fiscal year 2017:

Primary Government
Derivative Activity for the Year Ended June 30, 2017
By Derivative Type
(In Thousands)

Derivative Type	Change in Fair Value	Year End Fair Value	Year End Notional Amount
Governmental Activities:			
Futures	$ 10,305	$ -	$ 17
Fiduciary Activities:			
Futures	$ 83,605	$ -	$ (410,700)
Futures Options Bought	(4,511)	648	2,734
Futures Options Written	5,702	(163)	(1,391)
FX Forwards	3,749	(1,206)	380,156
Warrants/Stock Rights	1,392	4,163	1,010
Total Fiduciary Activities	$ 89,937	$ 3,442	$ (28,191)

Credit Risk: Minnesota is exposed to credit risk through eight counter parties in foreign currency forward (FX Forward) contracts used to offset the currency risk of a security. The state's FX Forward counter parties combined exposes the state to a maximum loss of $2,294,000 should these counter parties fail to perform. These counter parties 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 counter party 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 Activity: Derivative 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; and
- 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 market or book value, whichever is less, of a fund; and
- Generally, investment in corporate stock may not exceed 5 percent of the total outstanding shares of any one corporation.

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.

SBI invested in implicitly guaranteed items of the U.S. Government. Approximately five percent received a quality rating from Moody's or S&P. The remaining 95 percent were assigned an agency rating and represent approximately 80 percent of the total agency rating category.

Primary Government
Governmental, Proprietary, and Agency Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
As of June 30, 2017
(In Thousands)

Quality Rating	Fair Value
AAA	$ 474,539
AA	1,193,985
A	1,276,520
BBB	427,690
BB	88,714
B	3,961
CCC	7,455
Unrated	6,980,595
Agencies	1,213,074
U.S. Governments	1,333,224
Total Debt Securities	$ 12,999,757

Primary Government
Pension and Investment Trust Funds
Investments and Cash Equivalent Investments
Credit Risk Exposure
As of June 30, 2017
(In Thousands)

Quality Rating	Fair Value
AAA	$ 694,564
AA	431,710
A	716,915
BBB	2,319,890
BB	1,345,915
B	136,787
CCC	34,070
CC	28,998
C	7,398
D	7,911
Unrated	3,376,342
Agencies	3,520,330
U.S. Governments	3,584,620
Total Debt Securities	$ 16,205,450

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 Agency Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
As of June 30, 2017
(In Thousands)

Security Type	Fair Value	Weighted Average Maturity in Years
Debt Securities:		
U.S. Treasury	$ 1,198,784	2.54
U.S. Agencies	1,017,943	1.64
Mortgage-backed Securities	145,826	10.57
State or Local Government Bonds	77,409	4.86
Corporate Bonds	2,045,592	2.46
Yankee Bonds	409,148	1.41
Short Term Notes	8,105,055	0.15
Total Debt Securities	$ 12,999,757	
Equity Investments:		
Corporate Stock	$ 1,518,783	
Other Investments:		
Escheat Property	$ 15,362	
Money Market Accounts	12,366	
Total Other Investments	$ 27,728	
Total Investments	$ 14,546,268 [1]	

[1] Total investments are less than the amount shown on the face of the financial statements as amounts do not include cash on hand.

Primary Government
Pension and Investment Trust Funds
Investments and Cash Equivalent Investments
Interest Rate Risk
As of June 30, 2017
(In Thousands)

Security Type	Fair Value	Weighted Average Maturity in Years
Debt Securities:		
U.S. Treasury	$ 3,584,620	9.61
U.S. Agencies	340,025	5.23
Mortgage-backed Securities	4,124,019	5.09
State or Local Government Bonds	127,199	16.50
Corporate Bonds	3,527,169	8.99
Yankee Bonds	998,992	7.76
Foreign Country Bonds	66,794	17.75
Asset-backed Securities	579,012	2.80
Short Term Notes	2,857,620	0.27
Total Debt Securities	$ 16,205,450	
Equity Investments:		
Corporate Stock	$ 42,245,176	
Alternative Equities	8,358,541	
Stock Rights/Warrants	4,163	
Total Equity Investments	$ 50,607,880	
Other Investments:		
Guaranteed Investment Account:		
Synthetic Guaranteed Investment Contract (SGIC)	$ 1,474,369	
Short Term Investment Pool	90,941	
Total Guaranteed Investment Account	$ 1,565,310	
Futures Options	$ 485	
Mutual Funds	7,360,945	
Total Other Investments	$ 8,926,740	
Total Investments	$ 75,740,070 [1]	

[1] Total Investments do not include $22,421 of cash that is included in the cash and cash equivalent investments line on the pension and investments trust funds statements.

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; or
- 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 investments that are not hedging derivatives, 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, 2017, 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 occurs over the life of the investment. Cash and short-term investments are not leveled under GASB 72.

SBI has 20 investments that are valued at the NAV that are currently in the liquidation mode, totaling one 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 $5,974,264,000 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. SBI has 122 private equity investments representing 61 percent of the NAV.

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). SBI has 17 real estate investments representing seven percent of the NAV.

The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include

oil and gas investments and energy service industry investments that are diversified by geographic area as well as by type. SBI has 33 resource funds' investments representing 23 percent of the NAV.

The strategy for yield-oriented 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 yield-oriented investments. SBI has 30 yield oriented funds' investments representing nine percent of the NAV.

Primary Government
Governmental, Proprietary, and Agency Funds
Fair Value of Investments
As of June 30, 2017
(In Thousands)

Investments	Fair Value	Level 1	Level 2	Level 3
Equity:				
Common Stock	$ 1,478,809	$ 1,474,875	$ 3,934	$ -
Real Estate Investment Trust	43,336	43,336	-	-
Equity Total	$ 1,522,145	$ 1,518,211	$ 3,934	$ -
Fixed Income:				
Asset-backed Securities	$ 106,045	$ -	$ 106,045	$ -
Mortgage-backed Securities	145,826	-	145,826	-
Corporate Bonds	2,324,551	-	2,294,551	30,000
Government Issues	3,451,071	11,205	3,439,866	-
Fixed Income Total	$ 6,027,493	$ 11,205	$ 5,986,288	$ 30,000
Total Investments by Fair Value	$ 7,549,638 [1]	$ 1,529,416	$ 5,990,222	$ 30,000

[1] Total investments are less than the cash, cash equivalent investments, and investments shown on the face of the financial statements since cash and short-term investments are not leveled under GASB 72 and are not included in this table.

Primary Government
Pension and Investment Trust Funds
Fair Value of Investments
As of June 30, 2017
(In Thousands)

Investments	Fair Value	Level 1	Level 2	Level 3
Equity:				
Common Stock	$ 39,755,047	$ 39,556,216	$ 168,961	$ 29,870
Real Estate Investment Trust	1,258,452	1,257,405	-	1,047
Other Equity	1,318,496	990,520	89,292	238,684
Equity Total	$ 42,331,995	$ 41,804,141	$ 258,253	$ 269,601
Fixed Income:				
Asset-backed Securities	$ 900,909	$ -	$ 884,007	$ 16,902
Mortgage-backed Securities	4,486,402	-	4,430,016	56,386
Corporate Bonds	4,957,346	-	4,957,344	2
Government Issues	4,633,213	-	4,633,213	-
Other Debt Instruments	449,822	-	449,822	-
Fixed Income Total	$ 15,427,692	$ -	$ 15,354,402	$ 73,290
Investment Derivatives - Options	$ 485	$ 485	$ -	$ -
Total Investments by Fair Value	$ 57,760,172	$ 41,804,626	$ 15,612,655	$ 342,891

Investments Measured at Net Asset Value (NAV):	NAV	Unfunded Commitments
Private Equity	$ 5,084,039	$ 4,019,961
Real Estate	558,855	484,054
Resource	1,894,567	720,509
Yield Oriented	724,848	749,740
Total Investments at NAV	$ 8,262,309	$ 5,974,264
Total Investments by Fair Value and NAV	$ 66,022,481 [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 short-term investments are not leveled under GASB 72 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, Section 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 a single issuer that equals or exceeds five percent of the overall portfolio as of June 30, 2017. Federal Farm Credit Bank had an aggregate market value of 6.1 percent of the total debt security total of the Governmental, Proprietary, and Agency 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, 2017. 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, 2017
(In Thousands)

Currency	Cash	Debt	Equity
Australian Dollar	$ 8,924	$ -	$ 634,847
Brazilian Real	56	-	160,680
Canadian Dollar	9,233	492	862,624
Danish Krone	148	-	207,440
Euro Currency	9,733	839	3,864,275
Hong Kong Dollar	5,314	-	922,309
Indian Rupee	430	-	144,616
Indonesian Rupiah	30	-	92,495
Japanese Yen	14,252	23,231	2,241,413
Mexican Peso	1,082	-	94,452
New Taiwan Dollar	(669)	-	332,403
Pound Sterling	22,468	22,650	1,713,621
Singapore Dollar	1,681	-	118,473
South African Rand	112	-	153,707
South Korean Won	(18)	-	448,692
Swedish Krona	(20)	-	262,476
Swiss Franc	821	-	774,779
Other	696	-	459,490
Total	$ 74,273	$ 47,212	$ 13,488,792

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, 2017, the investment pool had an average duration of 13.08 days and an average weighted maturity of 115.06 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, 2017, 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, 2017, were $15,095,895,000 and $14,430,837,000, 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 $6,819,470,000 is reported in the Fiduciary Funds Statement of Net Position as an asset and correspondingly liability. Some component units that are allocated a portion of the collateral have a December 31 year end.

Primary Government
Pension and Investment Trust Funds
Securities Loaned
As of June 30, 2017
(In Thousands)

Investment Type	Fair Value
Domestic Equities	$ 8,551,615
U.S. Government Bonds	3,036,850
International Equities	1,848,580
Domestic Corporate Bonds	989,950
International Corporate Bonds	3,842
Total	$ 14,430,837

Component Units

Housing Finance Agency

As of June 30, 2017, the Housing Finance Agency (HFA) had $439,184,000 of cash and cash equivalents and $1,977,758,000 of investments. As of June 30, 2017, $435,925,000 of deposits and $1,921,695,000 of investment securities were subject to custodial credit risk. HFA investments have weighted average maturities ranging from under one month (certificates of deposit) to 0.8 – 27.2 years.

HFA cash equivalents included $3,259,000 of investment agreements, which are generally uncollateralized interest-bearing contracts.

HFA investments had an estimated fair value of $1,977,758,000 as of June 30, 2017. Included in these investments were $8,265,000 in U.S. Treasuries (not rated), and $1,878,806,000 in U.S. Agencies having an S&P rating of AA+ and Moody's Investors Services rating of Aaa. An additional $31,365,000 in municipal debt investments had an S&P rating of AA and Moody's Investors Services rating of Aa2.

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 $50,026,000 and $1,868,410,000 using Level 1 and Level 2 inputs, respectively. The remaining investments of $59,322,000 related to premiums/discounts and unrealized appreciation/depreciation.

HFA had investments in single issuers as of June 30, 2017, excluding investments issued or explicitly guaranteed by the U.S. Government that exceeded five percent or more of total investments. These investments of $552,651,000 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, 2017, as a liability called "Interest Rate Swap Agreements." The inception-to-date change in fair value as of June 30, 2017, was reported in "Accumulated Decrease in Fair Value of Hedging Derivatives" deferred outflows of resources.

As of June 30, 2017, HFA had interest rate swap agreements with the following counterparties; the Bank of New York Mellon (four agreements), Royal Bank of Canada (five agreements) and Wells Fargo (one agreement) for total notional amounts of $39,365,000, $168,700,000 and $0, and fair values of ($1,945,000), ($5,579,000), and ($241,000), respectively. For these counterparties, the fair values for the fiscal year ended June 30, 2017, decreased $1,249,000, decreased $4,735,000, and increased $241,000, 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 Aa1, Aa3, and Aa1 respectively, and all are rated by S&P as AA-.

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, 2016, the Metropolitan Council (MC), had $282,767,000 in cash and cash equivalents and $571,824,000 in investments. Of this amount, $818,255,000 was subject to rating. Using the Moody's Investors Services rating scale, $587,217,000 of these investments were rated Aaa, while $231,038,000 were not rated. U.S. Treasury State and Local Government Securities (SLGS) of $19,000 and net outstanding checks of $36,317,000 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. Of the $245,427,000 U.S. agency investments, MC has a custodial credit risk exposure of $2,021,000 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 $37,724,000 and $406,949,000 using Level 1 and Level 2 inputs, respectively. MC measured another $168,769,000 of investments at the net asset value, while the remaining $36,317,000 was cash and cash equivalents and $204,832,000 in the Internal Equity Pool 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 50, 100, 150, and 200 basis points with interest rate changes occurring on December 31, 2016. The investment portfolio excluding the cash and escrow accounts and the OPEB trust portfolio has an average yield of 1.51 percent, modified duration of 2.45 years, effective duration of 1.84 years, and convexity of -0.23.

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, 2016
(In Thousands)

Fair Value of Portfolio		Estimated Fair Value
Before Basis Point Increase	$	857,897
After Basis Point Increase of:		
50 Points	$	850,061
100 Points		845,179
150 Points		840,164
200 Points		835,122

MC has used commodity futures as an energy forward pricing mechanism permitted by Minnesota Statutes, Section 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 2016, MC performed a statistical analysis and determined that the liquidated hedges were essentially effective.

As of December 31, 2016, MC had 302 New York Mercantile Exchange (NYMEX) heating oil futures contracts (12.68 million gallons) acquired from March 10, 2015, through December 22, 2016, to terminate on dates from January 31, 2017, through September 28, 2018. As of December 31, 2016, the heating oil futures contracts had a fair value of $22,478,000.

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, 2017, the University of Minnesota (U of M), including its discretely presented component units, had $529,837,000 of cash and cash equivalents and $4,711,576,000 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 $436,705,000 and investments of $2,091,790,000.

As of June 30, 2017, U of M's bank balance of $298,257,000 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, 2017, $1,249,844,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

- $1,016,329,000 was rated AA or better
- $181,788,000 was rated BBB to A
- $51,727,000 was not rated

The securities subject to interest rate risk were comprised of the following:

- $497,235,000 in government agencies with weighted average maturities of 1.4 to 3.3 years
- $104,023,000 in mortgage-backed securities with a weighted average maturity of 18.3 years
- $298,846,000 in cash and cash equivalents with a weighted average maturity of 0.0 years
- $298,013,000 in mutual funds with a weighted average maturity of 5.3 years

As of June 30, 2017, U of M had $253,709,000 of equity investments subject to foreign currency risk. The two largest components of this amount are $67,786,000 in Euro Currency and $32,702,000 in British Pound Sterling.

Several U of M investment holdings are subject to custodial credit risk. As of June 30, 2017 and 2016, U of M held in the custodial accounts was $642,074,000 and $759,409,000 in Temporary Investment Pool (TIP); $180,687,000 and $164,178,000 in Consolidated Endowment Fund (CEF); and $22,447,000 and $21,774,000 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 $360,210,000; $656,271,000; and $4,854,000 using Level 1, 2 and 3 inputs, respectively. U of M measured another $1,070,455,000 of investments at the net asset value.

As of June 30, 2017, U of M has one pay-fixed, receive-variable swap that is considered ineffective. At June 30, 2017, the total fair value was ($436,000), with changes in fair value reported as investment income.

U of M is exposed to interest rate risk and termination risk upon default of the other party.

Nonmajor Component Units

Nonmajor Component Units
Cash, Cash Equivalents, and Investments
As of December 31, 2016, or June 30, 2017, as applicable
(In Thousands)

Component Unit	Cash and Cash Equivalents	Investments
Agricultural and Economic Development Board	$ 840	$ 21,624
National Sports Center Foundation	541	-
Office of Higher Education	431,999	-
Public Facilities Authority	424,752	18,327
Rural Finance Authority	13,374	-
Workers' Compensation Assigned Risk Plan	9,275	309,783
Minnesota Sports Facilities Authority	26,665	6,151
Total	$ 907,446	$ 355,885

Note 3 – Disaggregation of Receivables

Primary Government
Components of Net Receivables
Government-wide
As of June 30, 2017
(In Thousands)

Description	Governmental Activities: General Fund[(2)]	Federal Fund	Nonmajor Governmental Funds[(1)]	Total
Taxes:				
Corporate and Individual	$ 883,171	$ -	$ -	$ 883,171
Sales and Use	391,467	-	25,615	417,082
Property	394,457	-	-	394,457
Health Care Provider	308,044	-	114,869	422,913
Motor Vehicle/Fuel	-	-	75,015	75,015
Other	37,812	-	29,972	67,784
Child Support	39,840	40,534	245	80,619
Workers' Compensation	-	-	87,420	87,420
Other	272,276	214,279	57,580	544,135
Net Receivables	$ 2,327,067	$ 254,813	$ 390,716	$ 2,972,596

Description	Business-type Activities: State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	$ -	$ 303,829	$ -	$ 303,829
Tuition and Fees[(3)]	55,064	-	-	55,064
Other	-	-	29,409	29,409
Net Receivables	$ 55,064	$ 303,829	$ 29,409	$ 388,302
Total Government-wide Net Receivables				$ 3,360,898

(1) Includes $124,377 for Internal Service Funds, less Internal Service Fund eliminations of $119,500 among Governmental Activities.

(2) Includes $259 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 $300,102.

Accounts receivable are reported net of allowances for uncollectible amounts. Significant uncollectible amounts are:

- Corporate and Individual Taxes $124,633,000
- Sales and Use Taxes $35,122,000
- Child Support $177,939,000

Receivable balances not expected to be collected within one year are:

- Corporate and Individual Taxes $178,193,000
- Sales and Use Taxes $85,726,000
- Child Support $78,685,000
- Health Care Provider $97,351,000
- Other Receivables $101,289,000

Note 4 – Loans and Notes Receivable

Primary Government
Loans and Notes Receivable, Net of Allowance
As of June 30, 2017
(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	$ -	$ -	$ -	$ 27,575	$ 27,575
Economic Development	51,849	4,677	40,913	-	97,439
School Districts	271	-	-	-	271
Agricultural, Environmental and Energy Resources	-	-	58,186	-	58,186
Transportation	-	-	3,442	-	3,442
Other	6,858	-	1,147	1,989	9,994
Total	$ 58,978	$ 4,677	$ 103,688	$ 29,564	$ 196,907

Component Units
Loans and Notes Receivable
As of December 31, 2016, or June 30, 2017, as applicable
(In Thousands)

Component Unit	Loans and Notes Receivable
Housing Finance Agency	$ 1,071,058
Metropolitan Council	45,111
University of Minnesota	85,459
Agricultural and Economic Development Board	114
National Sports Center Foundation	807
Office of Higher Education	536,601
Public Facilities Authority	1,848,136
Rural Finance Authority	57,533
Total	$ 3,644,819

Note 5 – Interfund Transactions

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, 2017
(In Thousands)

Description	Amount
Due to the General Fund From:	
Federal Fund	$ 36
Nonmajor Governmental Funds	10,724
Nonmajor Enterprise Funds	20,452
Internal Service Funds	98,710
Fiduciary Funds	259
Total Due to General Fund From Other Funds	$ 130,181
Due to the Federal Fund From:	
General Fund	$ 222
Nonmajor Governmental Funds	3,230
Unemployment Insurance Fund	51
Total Due to Federal Fund From Other Funds	$ 3,503
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	$ 30,622
Total Due to State Colleges and Universities Fund From Other Funds	$ 30,622
Due to Nonmajor Enterprise Funds From:	
General Fund	$ 2,262
Nonmajor Enterprise Funds	1,905
Total Due to Nonmajor Enterprise Funds From Other Funds	$ 4,167
Due to Fiduciary Funds From:	
General Fund	$ 39
Fiduciary Funds	7,444
Total Due to Fiduciary Funds From Other Funds	$ 7,483
Due to Nonmajor Governmental Funds From:	
General Fund	$ 96,779
Unemployment Insurance Fund	14,101
Nonmajor Governmental Funds	22,228
Nonmajor Enterprise Funds	2,256
Total Due to Nonmajor Governmental Funds From Other Funds	$ 135,364

Primary Government
Interfund Transfers
Year Ended June 30, 2017
(In Thousands)

Description		Amount
Transfers to the General Fund From:		
Federal Fund	$	55,125
Nonmajor Governmental Funds		206,736
Nonmajor Enterprise Funds		115,289
Internal Service Funds		25,571
Total Transfers to General Fund From Other Funds	$	402,721
Transfers to the Federal Fund From:		
Unemployment Insurance Fund	$	43
Nonmajor Governmental Funds		1,348
Total Transfers to Federal Fund From Other Funds	$	1,391
Transfers and Capital Contributions to the State Colleges and Universities Fund From:		
General Fund	$	673,629
Nonmajor Governmental Funds		33,131
Total Transfers and Capital Contributions to State Colleges and Universities Fund From Other Funds	$	706,760
Transfers to Fiduciary Funds From:		
General Fund	$	60,462
Fiduciary Funds		47,928
Total Transfers to Fiduciary Funds From Other Funds	$	108,390
Transfers to Nonmajor Governmental Funds From:		
General Fund	$	837,241
Federal Fund		665
Unemployment Insurance Fund		5,688
Nonmajor Governmental Funds		213,187
Nonmajor Enterprise Funds		26,530
Internal Service Funds		7,389
Total Transfers to Nonmajor Governmental Funds From Other Funds	$	1,090,700
Transfers to Nonmajor Enterprise Funds From:		
General Fund	$	26,358
Nonmajor Governmental Funds		5,700
Nonmajor Enterprise Funds		132
Total Transfers to Nonmajor Enterprise Funds From Other Funds	$	32,190

Component Units

Primary Government and Component Units
Receivables and Payables
As of December 31, 2016, or June 30, 2017, as applicable
(In Thousands)

Component Units		Due from Primary Government		Due to Primary Government
Major Component Units:				
Housing Finance Agency	$	1,001	$	-
Metropolitan Council		97,717		-
University of Minnesota		15,028		11,324
Total Major Component Units	$	113,746	$	11,324
Nonmajor Component Units	$	5,560	$	73,798
Total Component Units	$	119,306	$	85,122

Primary Government		Due from Component Units		Due to Component Units
Major Governmental Funds:				
General Fund	$	6,563	$	30,777
Federal Fund		-		8,051
Total Major Governmental Funds	$	6,563	$	38,828
Nonmajor Governmental Funds	$	64,246	$	8,827
Nonmajor Enterprise Funds	$	-	$	6
Total Primary Government	$	70,809	$	47,661 (1)

(1) Due to Component Units on the Government-wide Statement of Net Position totals $53,152 and includes $5,491 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 $14,313,000 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 $71,645,000 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 $5,491,000 loans payable disclosed above.

Note 6 – Capital Assets

Primary Government

Primary Government
Capital Asset Activity
Government-wide Governmental Activities
Year Ended June 30, 2017
(In Thousands)

Asset Category	Beginning	Additions	Deductions	Ending
Governmental Activities:				
Capital Assets not Depreciated:				
Land	$ 2,569,638	$ 52,234	$ (4,511)	$ 2,617,361
Buildings, Structures, Improvements	41,443	285,293	-	326,736
Construction in Progress	432,217	256,273	(376,203)	312,287
Development in Progress	60,034	27,016	(3,709)	83,341
Infrastructure	10,179,574	453,153	(4,144)	10,628,583
Easements [1]	383,371	23,416	-	406,787
Art and Historical Treasures	7,168	391	-	7,559
Total Capital Assets not Depreciated	$ 13,673,445	$ 1,097,776	$ (388,567)	$ 14,382,654
Capital Assets Depreciated:				
Buildings, Structures, Improvements [1]	$ 3,134,263	$ 80,032	$ (20,176)	$ 3,194,119
Infrastructure	312,998	32,946	-	345,944
Internally Generated Computer Software	164,829	29,939	-	194,768
Easements	5,789	490	(1,289)	4,990
Equipment, Furniture, Fixtures	747,839	78,638	(37,825)	788,652
Total Capital Assets Depreciated	$ 4,365,718	$ 222,045	$ (59,290)	$ 4,528,473
Accumulated Depreciation for:				
Buildings, Structures, Improvements [1]	$ (1,252,174)	$ (84,807)	$ 8,789	$ (1,328,192)
Infrastructure	(89,510)	(10,937)	-	(100,447)
Internally Generated Computer Software	(59,134)	(24,570)	-	(83,704)
Easements [1]	(1,296)	(250)	120	(1,426)
Equipment, Furniture, Fixtures	(468,028)	(51,897)	31,515	(488,410)
Total Accumulated Depreciation	$ (1,870,142)	$ (172,461)	$ 40,424	$ (2,002,179)
Total Capital Assets Depreciated, Net	$ 2,495,576	$ 49,584	$ (18,866)	$ 2,526,294
Governmental Act. Capital Assets, Net	$ 16,169,021	$ 1,147,360	$ (407,433)	$ 16,908,948

(1) The beginning balance has been restated for the prior period adjustments.

Prior Period Adjustment Governmental Activities: During fiscal year 2017, non-depreciable easements increased by $70,256,000 and buildings increased by $38,578,000 and accumulated depreciation on buildings increased by $4,760,000 resulting in a prior period adjustment. This increase was attributable to the capitalization of building improvements and non-depreciable easements not previously recorded. Additionally, depreciable easements accumulated depreciation decreased by $536,000. This decrease was a result of eliminating accumulated depreciation on land that was transferred from depreciable easements to land.

Capital outlay expenditures in the governmental funds totaled $870,595,000 for fiscal year 2017. Donations of general capital assets received were valued at $13,032,000. Transfers of $374,817,000 were primarily from construction in progress for completed projects. Internal service funds additions were $61,377,000.

General capital assets purchased with resources provided by outstanding capital lease agreements in governmental activities as of June 30, 2017, consisted of buildings with a cost of $180,050,000.

Primary Government
Capital Asset Activity
Government-wide Business-type Activities and Fiduciary Funds
Year Ended June 30, 2017
(In Thousands)

Asset Category	Beginning	Additions	Deductions	Ending
Business-type Activities:				
Capital Assets not Depreciated:				
Land	$ 92,412	$ 133	$ -	$ 92,545
Construction in Progress	173,728	94,953	(193,117)	75,564
Total Capital Assets not Depreciated	$ 266,140	$ 95,086	$ (193,117)	$ 168,109
Capital Assets Depreciated:				
Buildings, Structures, Improvements	$ 3,459,873	$ 212,709	$ -	$ 3,672,582
Infrastructure	95	-	-	95
Library Collections	41,146	5,273	(6,354)	40,065
Internally Generated Computer Software	55,049	5,642	(1,430)	59,261
Equipment, Furniture, Fixtures	321,818	20,315	(9,897)	332,236
Total Capital Assets Depreciated	$ 3,877,981	$ 243,939	$ (17,681)	$ 4,104,239
Accumulated Depreciation for:				
Buildings, Structures, Improvements	$ (1,618,491)	$ (112,753)	$ -	$ (1,731,244)
Infrastructure	(53)	(3)	-	(56)
Library Collections	(24,095)	(5,724)	6,354	(23,465)
Internally Generated Computer Software	(10,181)	(5,696)	847	(15,030)
Equipment, Furniture, Fixtures	(221,002)	(24,122)	9,814	(235,310)
Total Accumulated Depreciation	$ (1,873,822)	$ (148,298)	$ 17,015	$ (2,005,105)
Total Capital Assets Depreciated, Net	$ 2,004,159	$ 95,641	$ (666)	$ 2,099,134
Business-type Act. Capital Assets, Net	$ 2,270,299	$ 190,727	$ (193,783)	$ 2,267,243
Fiduciary Funds:				
Capital Assets not Depreciated:				
Land	$ 597	$ 195	$ (363)	$ 429
Total Capital Assets not Depreciated	$ 597	$ 195	$ (363)	$ 429
Capital Assets Depreciated:				
Buildings	$ 29,763	$ -	$ -	$ 29,763
Internally Generated Computer Software	-	36,020	-	36,020
Equipment, Furniture, Fixtures	37,185	439	(32,125)	5,499
Total Capital Assets Depreciated	$ 66,948	$ 36,459	$ (32,125)	$ 71,282
Accumulated Depreciation for:				
Buildings	$ (11,167)	$ (766)	$ -	$ (11,933)
Internally Generated Computer Software	-	(6,566)	-	(6,566)
Equipment, Furniture, Fixtures	(7,925)	(391)	3,686	(4,630)
Total Accumulated Depreciation	$ (19,092)	$ (7,723)	$ 3,686	$ (23,129)
Total Capital Assets Depreciated, Net	$ 47,856	$ 28,736	$ (28,439)	$ 48,153
Fiduciary Funds, Capital Assets, Net	$ 48,453	$ 28,931	$ (28,802)	$ 48,582

Transfers-in for Business-type Activities resulted from $193,117,000 from construction in progress for completed projects and $1,292,000 in cost and $709,000 in accumulated depreciation to reclassify internally generated computer software from equipment, furniture, and fixtures. The fiduciary funds had similar transfers between classifications of $32,125,000 in cost and $3,686,000 in accumulated depreciation.

Primary Government
Depreciation Expense
Government-wide
Year Ended June 30, 2017
(In Thousands)

Function	Depreciation Expense
Governmental Activities:	
Agricultural, Environmental & Energy Resources	$ 14,882
Economic and Workforce Development	7,801
General Education	5,052
General Government	30,173
Health and Human Services	27,350
Public Safety and Corrections	32,440
Transportation	38,359
Internal Service Funds	16,404
Total Governmental Activities	$ 172,461
Business-type Activities:	
State Colleges and Universities	$ 128,354
Lottery	532
Other	18,703
Total Business-type Activities	$ 147,589

Primary Government
Significant Project Authorizations and Commitments
As of June 30, 2017
(In Thousands)

Description	Administration	Transportation
Authorization	$ 650,018	$ 1,329,137
Less: Expended through June 30, 2017	(437,373)	(780,333)
Less: Unexpended Commitment	(35,288)	(234,480)
Remaining Available Authorization	$ 177,357	$ 314,324

Land in the Permanent School Fund was donated by the federal government and valued at the estimated fair value at the time of donation. Total acres on June 30, 2017, were 2,513,707.

Component Units

Component Units
Capital Assets
As of December 31, 2016, or June 30, 2017, as applicable
(In Thousands)

	Major Component Units				
Asset Category	Housing Finance Agency	Metropolitan Council	University of Minnesota	Nonmajor Component Units	Totals
Capital Assets not Depreciated:					
Land	$ -	$ 262,462	$ 154,416	$ 33,409	$ 450,287
Construction in Progress	-	521,923	258,090	105	780,118
Leased Buildings	-	-	160,990	-	160,990
Museums and Collections	-	-	85,063	-	85,063
Easements	-	-	3	-	3
Total Capital Assets not Depreciated	$ -	$ 784,385	$ 658,562	$ 33,514	$ 1,476,461
Capital Assets Depreciated:					
Buildings, Structures, Improvements	$ -	$ 4,375,518	$ 4,072,353	$ 893,682	$ 9,341,553
Infrastructure	-	-	459,970	-	459,970
Internally Generated Software	9,818	-	172,004	-	181,822
Equipment, Furniture, Fixtures	2,254	1,429,044	957,312	228,117	2,616,727
Other Intangibles	-	-	6,903	-	6,903
Total Capital Assets Depreciated	$ 12,072	$ 5,804,562	$ 5,668,542	$ 1,121,799	$ 12,606,975
Total Accumulated Depreciation	$ (8,227)	$ (2,303,485)	$ (3,186,045)	$ (57,448)	$ (5,555,205)
Total Capital Assets Depreciated, Net[1]	$ 3,845	$ 3,501,077	$ 2,482,497	$ 1,064,351	$ 7,051,770
Component Units Capital Assets, Net	$ 3,845	$ 4,285,462	$ 3,141,059	$ 1,097,865	$ 8,528,231

[1] In addition to this amount, the component units of the University of Minnesota had combined capital assets with a net value of $66,019 as of June 30, 2017.

Note 7 – Disaggregation of Payables

Primary Government
Components of Accounts Payable
Government-wide
As of June 30, 2017
(In Thousands)

	Governmental Activities			
Description	General Fund(1)	Federal Fund	Nonmajor Governmental Funds(2)(3)	Total
School Aid Programs	$ 971,654	$ 167,483	$ 1,383	$ 1,140,520
Tax Refunds	567,172	-	-	567,172
Medical Care Programs	782,983	1,220,311	25,141	2,028,435
Grants	331,680	162,059	214,629	708,368
Salaries and Benefits	93,965	15,323	60,156	169,444
Vendors/Service Providers	241,363	48,151	154,099	443,613
Net Payables	$ 2,988,817	$ 1,613,327	$ 455,408	$ 5,057,552

	Business-type Activities			
Description	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	$ 118,431	$ -	$ 8,083	$ 126,514
Vendors/Service Providers	48,097	23,959	64,927	136,983
Net Payables	$ 166,528	$ 23,959	$ 73,010	$ 263,497
Total Government-wide Net Payables				$ 5,321,049

(1) Includes a $39 Interfund Payable to the Fiduciary Funds that was reclassified as Accounts Payable on the Government-wide Statement of Net Position.

(2) Includes $59,461 for Internal Service Funds.

(3) Amounts are shown net of Internal Service Fund eliminations of $119,500 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 comprehensive annual 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	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 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.

During fiscal year 2016, the state implemented GASB Statement No. 72 “Fair Value Measurement and Application.” This statement addresses accounting and financial reporting issues related to fair value measurements. 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, Investment, and Derivative Investments 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 securities trades receivables and payables. These unsettled securities 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, 2017, 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. The annuity benefit formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent of the member’s average salary for the first 10 years of allowable service and 1.7 percent for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of high-five average salary for each year of allowable service. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio declines to less than 80 percent for the most recent actuarial valuation year or 85 percent for two consecutive years, the benefit increase will change to 2.0 percent until the plan again reaches 90 percent funding for two consecutive years. For the prior measurement period, the benefit increase of 2.5 percent was projected to start in 2044, instead of not attaining the funding ratio threshold as in the current measurement period.

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 offenders program. Three employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity benefit formula is 2.4 percent of the member’s high-five average salary for each year of service for employees hired before July 1, 2010, and 2.2 percent for hires after June 30, 2010. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio declines to less than 80 percent for the most recent actuarial valuation year, or 85 percent for two consecutive years, the benefit increase will decrease to 2.0 percent until the plan again reaches 90 percent funding for two consecutive years.

The General Employees Retirement Fund (GERF) covers employees of various governmental units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. The plan provides retirement, survivor, and disability benefits. On January 1, 2015, Minneapolis Employee Retirement Fund (MERF) merged into GERF. The annuity accrual rate for former MERF members is 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity benefit formula for each type of membership is the greater of the step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially

based reduction for early retirement. For the step rate method, the applicable rates for each year of allowable service based on the member’s high-five average salary for basic members and for coordinated members are 2.2 and 1.2 percent for the first ten years of service and 2.7 and 1.7 percent for each remaining year, respectively. For the level rate method, applicable rate for each year of allowable service based on the member’s high-five average for basic members and for coordinated members are 2.7 and 1.7 percent, respectively. Annual benefits increase by 1.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio declines to less than 80 percent for the most recent actuarial valuation year or 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. For the prior measurement period, the benefit increase of 2.5 percent was projected to start in 2036 instead of not attaining the funding ratio threshold for the benefit increase within the next 75 years as in the current measurement period. For fiscal year 2018’s measurement period, the annual benefit increase will change to 1.0 percent per year through 2044 and 2.5 percent thereafter.

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 500 employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity formula for each member is 3.0 percent of the member’s high-five average salary for each year of service in that plan. Annual benefits increase by 1.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980.

The Public Employees Correctional Fund (PECF) covers employees in county correctional facilities who have a direct contact with inmates. Eighty county employers participate in this plan. The plan provides retirement, survivor, and disability benefits. The annuity formula for each member is 1.9 percent of the member’s high-five average salary for each year of service. Annual benefits increase by 2.5 percent each year, and if the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Approximately 600 employers participate in this plan. The plan provides retirement, survivor, and disability benefits. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity formula for the coordinated members is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The annuity formula for Tier I basic members is 2.2 percent for the first ten years and 2.7 percent for each subsequent year and Tier II is 2.7 percent of the member’s high-five average salary. The annuity formula for Tier I coordinated members for services prior to July 1, 2006, is 1.2 percent for the first ten years and 1.7 percent each subsequent year of the member’s high-five average salary. The annuity formula for Tier I coordinated members for services subsequent to July 1, 2006, is 1.4 percent for the first ten years and 1.9 percent each subsequent year of the member’s high-five average salary. The annuity formula for Tier II coordinated members is 1.7 percent for services prior to July 1, 2006, and 1.9 percent for each year subsequent of the member’s high-five average salary. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent of full funding for two consecutive years. For the prior measurement period, the benefit increase of 2.5 percent was projected to start in 2037 instead of not attaining the funding ratio threshold for the benefit increase as in the current measurement period. For fiscal year 2018’s measurement period, the benefit increase of 2.5 percent is projected to start in 2045.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Statutory Contribution Rates
(In Thousands)

Description	SERF	CERF	GERF[1]	TRF
Statutory Authority Minnesota Chapter(s)	352.04	352.92	353.27 353.505	354.42 354.435,436
Required Contribution Rate:				
Active Members	5.5%	9.1%	6.5-9.1%	7.5-11.0%
Employer(s)	5.5%	12.9%	7.5-11.8%	7.5-11.5%[2]
Non-Employer Contributing Entity	$ -	$ -	$ 6,000	$ 31,087
Primary Government Contributions – Reporting Period	$ 116,552	$ 31,663	$ 9,155	$ 45,972

[1] Required contribution is $6,000 for fiscal year 2017, $16,000 for fiscal years 2018 and 2019, and $6,000 for fiscal year 2020 and thereafter.

[2] An additional contribution of 3.64 percent of salary for TRF from Special School District No.1 brings the contribution range to 15.14 percent.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Summary of Pension Amounts
As of June 30, 2017
(In Thousands)

Description	SERF[1]	CERF[1]	GERF[1]	TRF[1]	Total
Primary Government's Proportionate Share of the Net Pension Liability as an:					
Employer	$ 9,160,172	$ 1,331,563	$ 58,119	$ 888,788	$ 11,438,642
Non-Employer Contributing Entity	-	-	104,677	1,900,653	2,005,330
Total	$ 9,160,172	$ 1,331,563	$ 162,796	$ 2,789,441	$ 13,443,972
Primary Government's Total Proportionate Share Percentage of the Net Pension Liability as of:					
Current Year Measurement Date	73.88%	99.91%	2.01%	11.69%	
Prior Year Measurement Date	73.93%	99.86%	4.18%	13.62%	
Deferred Outflows of Resources	$ 6,406,366	$ 622,632	$ 101,260	$ 1,890,667	$ 9,020,925
Deferred Inflows of Resources	$ 676,929	$ 74,153	$ 105,065	$ 108,685	$ 964,832
Net Pension Expense	$ 1,328,047	$ 178,518	$ 8,909	$ 415,676	$ 1,931,150

[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[1]	GERF[1]	TRF[1]
Actuarial Valuation/ Measurement Date	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
Long-Term Expected Rate	7.50%	7.50%	7.50%	8.00%[2]
20 Year Municipal Bond Rate[3]	2.85%	2.85%	2.85%	3.01%
Experience Study Dates	2008-2014	2011-2015	2008-2014	2008-2014
Inflation	2.50%	2.50%	2.50%	2.75%
Salary Increases	Service Related Rates	Service Related Rates	3.50-11.50%	3.50-9.50%
Payroll Growth	3.25%	3.25%	3.25%	3.50%

[1] For SERF, GERF 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, the RP-2000 table based on Scale AA was still used. There are various adjustments in each plan to match experience.

[2] The long-term expected rate of return for fiscal year 2018 will change to 7.50% for TRF.

[3] Source: Federal Reserve Board for SERF, CERF, and GERF and the Board of Governors of the Federal Reserve System for TRF.

Primary Government Administered Multiple-Employer Cost Sharing Plans
Deferred Outflows of Resources
As of June 30, 2017
(In Thousands)

Description	SERF	CERF	GERF	TRF	Total
Difference Between Expected and Actual Experience	$ 12,535	$ 6,788	$ 482	$ 27,324	$ 47,129
Changes in Assumption	5,857,907	539,678	35,111	1,590,645	8,023,341
Net Difference Between Projected and Actual Earnings on Investment	403,111	43,994	18,175	120,673	585,953
Change in Proportionate Difference Between Actual Contributions and Proportionate Share of Contributions	16,261	509	38,337	106,053	161,160
Contributions Subsequent to the Measurement Date	116,552	31,663	9,155	45,972	203,342
Total	$ 6,406,366	$ 622,632	$ 101,260	$ 1,890,667	$ 9,020,925

Primary Government Administered Multiple-Employer Cost Sharing Plans
Deferred Inflows of Resources
As of June 30, 2017
(In Thousands)

Description	SERF	CERF	GERF	TRF	Total
Difference Between Expected and Actual Experience	$ 231,631	$ 610	$ 13,225	$ 78	$ 245,544
Changes in Assumption	436,567	73,466	-	-	510,033
Change in Proportionate Share of Contributions	8,731	77	91,840	108,607	209,255
Total	$ 676,929	$ 74,153	$ 105,065	$ 108,685	$ 964,832

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, 2017
(In Thousands)

Description	SERF	CERF	GERF	TRF	Total
2018	$ 1,212,118	$ 116,890	$ 709	$ 353,243	$ 1,682,960
2019	1,212,121	116,892	(599)	353,244	1,681,658
2020	1,586,162	132,635	(16,952)	385,742	2,087,587
2021	1,602,484	150,399	3,882	354,692	2,111,457
2022	-	-	-	289,089	289,089
Net Pension Expense	$ 5,612,885	$ 516,816	$ (12,960)	$ 1,736,010	$ 7,852,751
Deferred Outflow of Resources as a Reduction to Net Pension Liability	116,552	31,663	9,155	45,972	203,342
Net Deferred Outflows (Inflows) of Resources	$ 5,729,437	$ 548,479	$ (3,805)	$ 1,781,982	$ 8,056,093

Non-Primary Government Administered Multiple-Employer Cost Sharing Plans

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. Members hired before July 1, 1989, are eligible for Tier I or II benefits, whichever results in the highest benefits. The benefit formula for Tier I members is 1.2 percent of the members high-five average salary for the first ten years of service and 1.7 percent for subsequent years of service for services rendered prior to July 1, 2015, when these rates increase to 1.4 percent and 1.9 percent, respectively. The benefit formula for Tier II members is 1.7 percent of the members high-five average salary for years of service rendered prior to July 1, 2015, when this rate increases to 1.9 percent. Annual benefits increase by 1.0 percent each year, 2.0 percent if the plan is funded at least 80 percent, and up to 2.5 percent if the plan is funded at least 90 percent. For the prior measurement period, the benefit increase of 2.0 percent was projected to start in 2041 and 2.5 percent in 2051, instead of 2055 and 2066, respectively as in the current measurement period.

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Statutory Contribution Rates
(In Thousands)

Description	SPTRF
Statutory Authority	354A.12
Required Contribution Rate:	
Active Members	7.5-10.0%
Employer(s)	6.25-9.75%[1]
Primary Government as Non-Employer Contributing Entity - Statutory Requirement	$ 10,665
Primary Government Contributions - Reporting Period	$ 10,731

[1] Required contribution rates increase to 6.50 to 10.0 percent for employers, on June 30, 2017.

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Summary of Pension Amounts
As of June 30, 2017
(In Thousands)

Description	SPTRF[1]
Primary Government's Proportionate Share of the Net Pension Liability as an:	
Employer	$ 1,082
Non-Employer Contributing Entity	182,226
Total	$ 183,308
Primary Government's Total Proportionate Share Percentage of the Net Pension Liability as of:	
Current Measurement Date	28.96%
Prior Measurement Date	29.76%
Deferred Outflows of Resources	$ 31,843
Deferred Inflows of Resources	$ 20,789
Net Pension Expense	$ 12,615

[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, 2016
Long-Term Expected Rate	8.00%
20 Year Municipal Bond Rate[2]	2.85%
Experience Study Dates	2006-2011
Inflation	3.00%
Salary Increases	4.00-8.90%
Payroll Growth	4.00%

[1] For mortality rate assumptions, the RP – 2000 Mortality table for males and females was used and adjusted for mortality improvements based on Scale AA to 2020, set back one year for males, and set back three years for females.

[2] Source: Federal Reserve Board.

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Deferred Outflows of Resources
As of June 30, 2017
(In Thousands)

Description	SPTRF
Changes in Assumption	$ 4,593
Net Difference Between Projected and Actual Earnings on Investment	16,519
Contributions Subsequent to the Measurement Date	10,731
Total	$ 31,843

Non-Primary Government Administered Multiple-Employer Cost Sharing Plan
Deferred Inflows of Resources
As of June 30, 2017
(In Thousands)

Description	SPTRF
Difference Between Expected and Actual Experience	$ 14,048
Change in Proportionate Share of Contributions	6,741
Total	$ 20,789

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, 2017
(In Thousands)

Description	SPTRF
2018	$ (2,783)
2019	(2,780)
2020	1,467
2021	4,419
Net Pension Expense	$ 323
Deferred Outflow of Resources as a Reduction to Net Pension Liability	10,731
Net Deferred Outflows (Inflows) of Resources	$ 11,054

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 112 employers participating in this plan. 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 71 possible levels ranging from $500 to $7,500 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, Chapter 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. The annuity benefit formula for Tier I program judges is 2.7 percent of the high-five average salary for each year of service prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.8 percent. The annuity benefit formula for Tier II program judges is 2.5 percent of the high-five average salary for each year of service. For the prior measurement period, the benefit increase of 1.75 percent was projected indefinitely instead of 1.75 percent through 2041, 2.0 percent through 2054, and 2.5 percent thereafter. For fiscal year 2018's measurement period, the benefit increase will change to 1.75 percent through 2038, 2.0 percent through 2053, and 2.5 percent thereafter.

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. The annuity benefit formula ranges from 2.5 percent to 5.0 percent of high-five average salary for each year of service depending on a member's length of service. Annual benefits increase by 2.0 percent each year and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 2.5 percent increase, the funding ratio for the State Employees Retirement Fund declines to less than 80 percent for the most recent actuarial valuation year or 85 percent for two consecutive years, the benefit increase will decrease to 2.0 percent until the plan reaches a 90 percent funding ratio for two consecutive years. For the prior measurement period, the benefit increase of 2.0 percent through 2043 and 2.5 percent thereafter instead projected at 2.0 percent indefinitely as in the current measurement period. This plan is closed to new entrants.

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. The annuity is 3.0 percent of 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 benefits increase by 1.0 percent each year and 1.5 percent if the plan is funded at least 85 percent for two consecutive years, and 2.5 percent if the plan is funded at least 90 percent for two consecutive years. If, after reverting to a 1.5 percent increase, the funding ratio declines to less than 75 percent for the most recent actuarial valuation year or 80 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. For the prior measurement period, the benefit increase was projected as 1.0 percent through 2031, 1.5 percent through 2052, and 2.5 percent thereafter instead of 1.0 percent indefinitely as in the current measurement period. For fiscal year 2018's measurement period, the benefit increase will change to 1.0 percent through 2064, and 1.5 percent thereafter.

Primary Government Administered Single-Employer Plans
Statutory Contribution Rates
(In Thousands)

Description	JRF	LRF	SPRF
Statutory Authority	490.123	3A.03	352B.02
Required Contribution Rate:			
Active Members	7.0-9.0%	9.0%	14.4%
Employer	22.5%	N/A(1)	21.6%
Primary Government Contributions – Reporting Period	$ 13,759	$ 8,716	$ 15,783

(1) Employer contributions are based on a pay-as-you-go basis.

Primary Government Administered Single-Employer Plans
Membership Statistics

Description	JRF	LRF	SPRF
Members (or their beneficiaries) Currently Receiving Benefits	350	372	1,048
Members Entitled To, But Not Receiving Benefits	17	52	75
Active Members	311	23	892

Primary Government Administered Single-Employer Plans
Summary of Pension Amounts
As of June 30, 2017
(In Thousands)

Description	JRF	LRF	SPRF	Total
Net Pension Liability	$ 179,129	$ 154,700	$ 492,978	$ 826,807
Deferred Outflows of Resources	$ 42,587	$ 8,716	$ 297,567	$ 348,870
Deferred Inflows of Resources	$ 74,592	$ 147	$ 29,972	$ 104,711
Net Pension Expense	$ 5,720	$ 18,525	$ 68,951	$ 93,196

Primary Government Administered Single-Employer Plans
Actuarial Assumptions

Description	JRF(1)	LRF(1)	SPRF(1)
Actuarial Valuation / Measurement Date	June 30, 2016	June 30, 2016	June 30, 2016
Long-Term Expected Rate	7.50%	7.50%	7.50%
20 Year Municipal Bond Rate(2)	2.85%	2.85%	2.85%
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 – 2000 Mortality table for males and females was used and adjusted for mortality improvements based on Scale AA. There are various adjustments in each plan to match experience.

(2) Source: Federal Reserve Board.

Primary Government Administered Single-Employer Plans
Schedule of Net Pension Liability
As of June 30, 2017
(In Thousands)

Description	JRF	LRF	SPRF	Total
Total Pension Liability (TPL):				
Service Cost	$ 13,711	$ 495	$ 16,555	$ 30,761
Interest on the Total Pension Liability	21,349	5,332	64,592	91,273
Difference Between Expected and Actual Experience of the Total Pension Liability	7,135	(1,597)	(22,222)	(16,684)
Changes in Assumptions	(85,756)	14,653	283,584	212,481
Benefit Payments, Including Refunds of Member Contributions	(22,378)	(8,536)	(57,774)	(88,688)
Net Change in Total Pension Liability	$ (65,939)	$ 10,347	$ 284,735	$ 229,143
Total Pension Liability – Beginning	$ 410,972	$ 144,353	$ 838,235	$ 1,393,560
Total Pension Liability – Ending	$ 345,033	$ 154,700	$ 1,122,970	$ 1,622,703
Fiduciary Net Position (FNP):				
Contributions – Employer	$ 10,219	$ 5,087	$ 14,938	$ 30,244
Contributions – Member	3,763	89	9,292	13,144
Net Investment Income	(186)	(69)	(774)	(1,029)
Benefit Payments, Including Refunds of Member Contributions	(22,378)	(8,536)	(57,774)	(88,688)
Pension Plan Administrative Expenses	(94)	(42)	(220)	(356)
Other Changes	-	41	-	41
Net Change in Plan Fiduciary Net Position	$ (8,676)	$ (3,430)	$ (34,538)	$ (46,644)
Plan Fiduciary Net Position – Beginning	$ 174,580	$ 3,430	$ 664,530	$ 842,540
Plan Fiduciary Net Position – Ending	$ 165,904	$ -	$ 629,992	$ 795,896
Net Pension Liability (NPL)	$ 179,129	$ 154,700	$ 492,978	$ 826,807

Primary Government Administered Single-Employer Plans
Deferred Outflows of Resources
As of June 30, 2017
(In Thousands)

Description	JRF	LRF	SPRF	Total
Difference Between Expected and Actual Experience	$ 7,740	$ -	$ -	$ 7,740
Changes in Assumption	13,018	-	251,348	264,366
Net Difference Between Projected and Actual Earnings on Investment	8,070	-	30,436	38,506
Contributions Subsequent to the Measurement Date	13,759	8,716	15,783	38,258
Total	$ 42,587	$ 8,716	$ 297,567	$ 348,870

Primary Government Administered Single-Employer Plans
Deferred Inflows of Resources
As of June 30, 2017
(In Thousands)

Description	JRF	LRF	SPRF	Total
Difference Between Expected and Actual Experience	$ 2,620	$ -	$ 29,972	$ 32,592
Changes in Assumption	71,972	-	-	71,972
Net Difference Between Projected and Actual Earnings on Investment	-	147	-	147
Total	$ 74,592	$ 147	$ 29,972	$ 104,711

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, 2017
(In Thousands)

Description	JRF	LRF	SPRF	Total
2018	$ (12,213)	$ (132)	$ 48,042	$ 35,697
2019	(12,215)	(131)	48,042	35,696
2020	(8,338)	76	60,366	52,104
2021	(12,998)	40	51,803	38,845
2022	-	-	43,559	43,559
Net Pension Expense	$ (45,764)	$ (147)	$ 251,812	$ 205,901
Deferred Outflow of Resources as a Reduction to Net Pension Liability	13,759	8,716	15,783	38,258
Net Deferred Outflows (Inflows) of Resources	$ (32,005)	$ 8,569	$ 267,595	$ 244,159

Summary of Defined Benefit Plans

Summary of Defined Benefit Plans
As of June 30, 2017
(In Thousands)

Description	Primary Government Administered Multiple-Employer Cost Sharing Plans	Non-Primary Government Administered Multiple-Employer Cost Sharing Plans	Primary Government Administered Single-Employer Plans	Total
Net Pension Liabilities	$ 13,443,972	$ 183,308	$ 826,807	$ 14,454,087
Deferred Outflows of Resources	$ 9,020,925	$ 31,843	$ 348,870	$ 9,401,638
Deferred Inflows of Resources	$ 964,832	$ 20,789	$ 104,711	$ 1,090,332
Net Pension Expense	$ 1,931,150	$ 12,615	$ 93,196	$ 2,036,961

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, 2017

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Geometric Mean)
Domestic Stocks	45%	5.50%
International Stocks	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Unallocated Cash	2	0.50
Total	100%	

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, 2017
(In Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
Plan	Rate	NPL(1)	Rate	NPL(1)	Rate	NPL(1)
SERF(3)(4)	3.17%	$ 12,077,217	4.17%(2)	$ 9,160,172	5.17%	$ 6,814,925
CERF(3)(4)	3.24	1,740,577	4.24(2)	1,331,563	5.24	1,008,279
GERF(3)	6.50	231,219	7.50	162,796	8.50	106,434
TRF(3)(4)	3.66	3,593,497	4.66(2)	2,789,441	5.66	2,134,564
SPTRF	7.00	232,908	8.00	183,308	9.00	141,765
JRF(3)	6.50	213,206	7.50	179,129	8.50	149,781
LRF(3)(4)	1.85	173,150	2.85(2)	154,700	3.85	139,340
SPRF(3)(4)	4.31	648,622	5.31(2)	492,978	6.31	365,920

(1) Net Pension Liability.

(2) The long-term projected rate of return was used through 2042, 2045, 2052, and 2052 for SERF, CERF, TRF, and SPRF, respectively. Municipal bond rates were used subsequent to these years. For LRF, the municipal bond rate was used for all years.

(3) The discount rate changed from 7.90, 6.25, 7.90, 8.00, 5.25, 3.80, and 7.90 percent for SERF, CERF, GERF, TRF, JRF, LRF, and SPRF, respectively.

(4) The discount rate for fiscal year 2018 will change to 5.42, 5.02, 5.12, 3.56, and 6.38 percent for SERF, CERF, TRF, LRF, and SPRF, respectively.

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, Sections 383B.46-52, 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, Section 352.98, creates a post-retirement health care savings plan by which public employers and 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 $138,807,000 for the fiscal year ended June 30, 2017.

The Unclassified Employees Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 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 5.5 percent of employee's salary for employee and 6.0 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 a 6.0 percent post-retirement interest assumption 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, Section 352.965. The plan is primarily composed of employee pre-tax 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 Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 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, Chapter 354B and Chapter 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 4.5 percent, respectively. 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, 2017
(In Thousands)

Description	HCSRF	UERF	DCPF	DCF	CURF	Total
Member Contributions	$ 160	$ 6,635	$ 270,665	$ 1,739	$ 37,077	$ 316,276
Employer Contributions:						
Primary Government Contributions	$ -	$ 6,391	$ -	$ -	$ 44,349	$ 50,740
Other Employer Contributions	160	554	-	1,822	-	2,536
Total Employer Contributions	$ 160	$ 6,945	$ -	$ 1,822	$ 44,349	$ 53,276

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)
- Office of Higher Education (OHE)
- Public Facilities Authority (PFA)
- Minnesota Sports Facilities Authority (MSFA)

Component Unit
Summary of Pension Amounts
State Employee Retirement Fund
As of June 30, 2017
(In Thousands)

	Major Component Units			Non-Major Component Units			
Description	HFA	MC	U of M	OHE	PFA	MSFA	Total
Proportionate Share of the Net Pension Liability	$ 76,077	$ 1,164,752	$ 1,884,630	$ 15,549	$ 8,124	$ 2,604	$ 3,151,736
Deferred Outflows of Resources	$ 53,275	$ 821,659	$ 1,311,348	$ 10,888	$ 5,689	$ 1,726	$ 2,204,585
Deferred Inflows of Resources	$ 5,554	$ 88,532	$ 169,383	$ 1,135	$ 594	$ 702	$ 265,900
Net Pension Expense	$ 11,030	$ 174,431	$ 257,176	$ 2,161	$ 3,029	$ 188	$ 448,015

Major Component Units
Summary of Pension Amounts
Police and Fire Fund
As of June 30, 2017
(In Thousands)

Description	MC	U of M	Total
Proportionate Share of the Net Pension Liability	$ 40,212	$ 24,240	$ 64,452
Deferred Outflows of Resources	$ 29,013	$ 17,448	$ 46,461
Deferred Inflows of Resources	$ 4,581	$ 2,890	$ 7,471
Net Pension Expense	$ 6,375	$ 3,712	$ 10,087

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 100 former faculty members and staff currently receive this benefit. The cost of the benefits was $1,730,000 during fiscal year ended June 30, 2017, with a remaining liability as of June 30, 2017, of $2,756,000.

Primary Government – Postemployment Benefits Other Than Pensions

Plan Description

Other postemployment benefits (OPEB) are available to state employees 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 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. As of July 1, 2016, there were approximately 2,400 retirees participating in the state's insurance plan under this provision.

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. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age 65. As of July 1, 2016, there were approximately 950 correctional and law enforcement retirees receiving an explicit rate subsidy.

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.

Funding Policy

The contribution requirement of plan members and the state are established and may be amended by the Minnesota Legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year ended June 30, 2017, the state contributed $33,002,000 to the plan. Plan member retirees receiving benefits through the implicit rate subsidy contributed $23,420,000 through their average required contribution of $589 per month for retiree-only coverage and $1,731 per month for retiree-family coverage.

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 2.85 percent discount rate. For year ending June 30, 2017, the state's ARC is $72,069,000.

The following table shows the components of the state's annual OPEB cost, the amount contributed to the plan, and the changes to the state's net OPEB obligation:

OPEB Disclosures
As of June 30, 2017
(In Thousands)

Description		Amount
Annual Required Contributions (ARC)[1]	$	72,069
Interest on Net OPEB Obligation (NOO)[1]		9,593
Amortization Adjustment to ARC[1]		(10,516)
Annual OPEB Cost (Expense)	$	71,146
Contributions		(33,002)
Increase in NOO	$	38,144
NOO, Beginning Balance	$	336,557
NOO, Ending[2]	$	374,701

(1) Components of annual OPEB cost.

(2) Governmental Activities, Business-type Activities, and Fiduciary Funds include $327,428; $47,138; and $135, respectively.

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2017, 2016, and 2015 are as follows:

OPEB Disclosures
(In Thousands)

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
June 30, 2017	$	71,146	46%	$	374,701
June 30, 2016	$	75,641	48%	$	336,557
June 30, 2015	$	72,065	45%	$	296,900

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was $616,648,000. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was $3,619,205,000 and the ratio of the UAAL to the covered payroll was 17.0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, as the state operates on a pay-as-you-go basis, the actuarial value of plan assets is zero.

Actuarial Methods and Assumptions

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial Assumptions for OPEB

- The actuarial cost method used is the Entry Age Normal Cost method. The date of actuarial valuation is July 1, 2016.
- Expected investment return is 2.85 percent based on Bond Buyer 20-Bond General Obligation Index.
- Inflation rate is 2.75 percent.
- Projected salary increases are a level 3.50 percent.

- The annual health care cost trend rate is 6.40 percent initially, reduced by increments to an ultimate rate of 3.8 percent by 2073 and later. The annual dental cost trend rate is 5.0 percent.

- The amortization period for the unfunded actuarial accrued liability is 30 year level percent of pay.

- The amortization period is open.

See Note 12 – Long-Term Liabilities – Primary Government for the related liability amount accrued at the government-wide level.

Component Units – Postemployment Benefits Other Than Pensions

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. MC does not fund its OPEB benefits in an irrevocable trust. However, it has separately invested $229,272,000 as of December 31, 2016, for this purpose. The annual required contribution for 2016 was $22,106,000 or 5.83 percent of annual covered payroll. As of December 31, 2016, 2015, and 2014, the net OPEB obligation was $92,247,000, $87,231,000, and $83,577,000, respectively. The actuarial accrued liability (AAL) for benefits was $215,484,000 as of December 31, 2016, all of which was unfunded. The covered payroll was $379,435,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 56.8 percent.

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. U of M does not fund its OPEB benefits in an irrevocable trust. The annual required contribution for the year ended June 30, 2017, was $29,191,000 or 2.1 percent of annual covered payroll. As of June 30, 2017, 2016, and 2015, the net OPEB obligation was $156,722,000, $138,200,000, and $120,227,000. The actuarial accrued liability (AAL) for benefits was $105,952,000 as of June 30, 2017. The covered payroll was $1,384,251,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 7.7 percent.

Note 10 – Long-Term Commitments

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, gas 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, 2017, were as follows:

Primary Government
Encumbrances
As of June 30, 2017
(In Thousands)

Description	Amount
Major Fund: General Fund	$ 454,057
Non-Major Governmental Funds	1,541,116
Total Encumbrances	$ 1,995,173

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities had commitments of $18,146,000 for construction and renovation of college and university facilities as of June 30, 2017.

Component Units

As of June 30, 2017, the Housing Finance Agency had committed approximately $354,917,000 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, 2016, unpaid commitments for Metro Transit Bus services were approximately $301,230,000. Future commitments for Metro Transit Light Rail were approximately $58,436,000, while future commitments for Metro Transit Commuter Rail were approximately $9,106,000. Future commitments for Regional Transit and Environmental Services were approximately $40,888,000 and $89,141,000, respectively. Finally, amounts authorized and initiated in the calendar year 2016 budget but not completely expended in calendar year 2016 were $1,009,000.

The University of Minnesota had construction projects in progress with an estimated completion cost of $327,861,000 as of June 30, 2017. These costs will be funded from plant account assets and state appropriations.

As of June 30, 2017, the Public Facilities Authority (PFA) had committed approximately $87,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed $34,000,000 for grants.

As of June 30, 2017, the Minnesota Sports Facilities Authority had committed approximately $12,207,000 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, 2017, totaled approximately $88,064,000 and $21,309,000 for the primary government and component units, respectively. Lease expenses for the year ended December 31, 2016, totaled approximately $1,827,000 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
2018	$ 84,478	2018	$ 10,490	2017	$ 1,134
2019	69,473	2019	9,658	2018	1,051
2020	56,031	2020	6,566	2019	668
2021	50,027	2021	6,031	2020	399
2022	42,944	2022	5,033	2021	284
2023-2027	121,466	2023-2027	19,295	2022-2026	159
2028-2032	2,430	2028-2032	9,733	2027-2031	142
2033-2037	255	2033-2037	5,089	2032-2036	136
2038-2042	-	2038-2042	1,412	2037-2041	9
2043-2047	-	2043-2047	1,035	2042-2046	-
Total	$ 427,104	Total	$ 74,342	Total	$ 3,982

Note 12 – Long-Term Liabilities – Primary Government

Primary Government
Long-Term Liabilities
Year Ended June 30, 2017
(In Thousands)

Liability Type	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 7,043,943	$ 945,280	$ 989,713	$ 6,999,510	$ 563,723
Revenue Bonds	42,103	-	2,738	39,365	2,570
State General Fund Appropriation Bonds	1,128,706	11,790	49,601	1,090,895	40,855
Loans	23,337	12,386	12,471	23,252	9,225
Due to Component Unit	7,817	-	2,326	5,491	627
Capital Leases	89,854	-	8,973	80,881	9,305
Certificates of Participation	115,870	-	10,995	104,875	10,355
Claims	727,634	906,763	880,744	753,653	175,809
Compensated Absences	305,707	307,354	297,045	316,016	42,458
Net Other Postemployment Benefits	292,616	63,082	28,270	327,428	-
Net Pension Liability	3,158,316	9,429,399	303,539	12,284,176	-
Total	$ 12,935,903	$ 11,676,054	$ 2,586,415	$ 22,025,542	$ 854,927
Business-type Activities:					
General Obligation Bonds	$ 253,671	$ 11,248	$ 26,282	$ 238,637	$ 21,292
Revenue Bonds	431,289	161,675	200,894	392,070	37,315
Loans [1]	3,152	-	600	2,552	508
Capital Leases [1]	23,325	7,946	4,275	26,996	4,338
Claims	14,890	101,748	101,760	14,878	12,800
Compensated Absences	152,748	32,770	30,379	155,139	19,162
Net Other Postemployment Benefits	43,826	8,000	4,688	47,138	-
Net Pension Liability	416,281	1,784,908	31,278	2,169,911	-
Total	$ 1,339,182	$ 2,108,295	$ 400,156	$ 3,047,321	$ 95,415

(1) The beginning balance for Loans and Capital Leases has been restated as a result of the reclassification of a lease from Loans to Capital Leases.

Primary Government
Resources for Repayment of Long-Term Liabilities
Year Ended June 30, 2017
(In Thousands)

Liability Type	Governmental Activities: General Fund	Governmental Activities: Special Revenue Funds	Governmental Activities: Internal Service Funds	Business-type Activities	Total
General Obligation Bonds	$ 5,014,110	$ 1,985,400	$ -	$ 238,637	$ 7,238,147
Revenue Bonds	14,077	25,288	-	392,070	431,435
State General Fund Appropriation Bonds	1,090,895	-	-	-	1,090,895
Loans	-	769	22,483	2,552	25,804
Due to Component Unit	-	5,491	-	-	5,491
Capital Leases	80,881	-	-	26,996	107,877
Certificates of Participation	104,875	-	-	-	104,875
Claims	111,195	552,766	89,692	14,878	768,531
Compensated Absences	150,317	133,450	32,249	155,139	471,155
Net Other Postemployment Benefits	325,955	-	1,473	47,138	374,566
Net Pension Liability	11,383,222	-	900,954	2,169,911	14,454,087
Total	$ 18,275,527	$ 2,703,164	$ 1,046,851	$ 3,047,321	$ 25,072,863

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, state General Fund appropriation bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for claims, compensated absences, net other postemployment benefits, and net pension liability.

Primary Government
General Obligation Bonds
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities: Principal	Governmental Activities: Interest	Business-type Activities: Principal	Business-type Activities: Interest	Total: Principal	Total: Interest
2018	$ 563,723	$ 268,667	$ 21,292	$ 10,051	$ 585,015	$ 278,718
2019	519,468	242,819	20,267	8,847	539,735	251,666
2020	506,234	218,362	19,756	7,891	525,990	226,253
2021	472,273	194,783	18,892	6,952	491,165	201,735
2022	466,024	172,135	18,381	6,044	484,405	178,179
2023-2027	1,911,217	565,294	72,893	18,704	1,984,110	583,998
2028-2032	1,273,470	214,624	37,795	6,237	1,311,265	220,861
2033-2037	461,906	33,981	12,324	954	474,230	34,935
Total	$ 6,174,315	$ 1,910,665	$ 221,600	$ 65,680	$ 6,395,915	$ 1,976,345
Bond Premium	$ 825,195	$ -	$ 17,037	$ -	$ 842,232	$ -
Total	$ 6,999,510	$ 1,910,665	$ 238,637	$ 65,680	$ 7,238,147	$ 1,976,345

Primary Government
Revenue Bonds
Principal and Interest Payments
(In Thousands)

Year Ended June 30	Governmental Activities: Principal	Governmental Activities: Interest	Business-type Activities: Principal	Business-type Activities: Interest	Total: Principal	Total: Interest
2018	$ 2,570	$ 1,383	$ 37,315	$ 14,990	$ 39,885	$ 16,373
2019	2,645	1,298	39,195	13,167	41,840	14,465
2020	2,740	1,205	40,665	11,536	43,405	12,741
2021	2,830	1,109	29,370	9,837	32,200	10,946
2022	2,935	1,014	19,835	8,642	22,770	9,656
2023-2027	9,365	4,147	96,705	31,621	106,070	35,768
2028-2032	11,150	2,289	83,475	12,431	94,625	14,720
2033-2037	5,130	222	24,650	1,534	29,780	1,756
2038-2042	-	-	650	11	650	11
Total	$ 39,365	$ 12,667	$ 371,860	$ 103,769	$ 411,225	$ 116,436
Bond Premium	$ -	$ -	$ 20,210	$ -	$ 20,210	$ -
Total	$ 39,365	$ 12,667	$ 392,070	$ 103,769	$ 431,435	$ 116,436

Primary Government
State General Fund Appropriation Bonds
Principal and Interest Payments
(In Thousands)

	Governmental Activities	
Year Ended June 30	Principal	Interest
2018	$ 40,855	$ 46,299
2019	41,650	44,416
2020	43,410	42,409
2021	45,245	40,346
2022	47,390	38,133
2023-2027	272,565	154,318
2028-2032	227,555	86,518
2033-2037	100,205	53,469
2038-2042	124,285	26,482
2043-2047	28,715	1,439
Total	$ 971,875	$ 533,829
Bond Premium	$ 119,020	$ -
Total	$ 1,090,895	$ 533,829

Primary Government
Loans Payable and Due to Component Unit
Principal and Interest Payments
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 9,852	$ 441	$ 508	$ 106	$ 10,360	$ 547
2019	6,892	306	375	89	7,267	395
2020	5,016	212	270	74	5,286	286
2021	2,959	143	288	62	3,247	205
2022	1,132	97	223	48	1,355	145
2023-2027	1,740	305	888	85	2,628	390
2028-2032	895	74	-	-	895	74
2033-2037	257	16	-	-	257	16
Total	$ 28,743	$ 1,594	$ 2,552	$ 464	$ 31,295	$ 2,058

Primary Government
Capital Leases
Principal and Interest Payments
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 9,305	$ 3,968	$ 4,338	$ 1,672	$ 13,643	$ 5,640
2019	9,712	3,545	4,522	1,663	14,234	5,208
2020	10,162	3,077	4,439	1,741	14,601	4,818
2021	10,655	2,569	2,083	657	12,738	3,226
2022	11,171	2,036	1,678	388	12,849	2,424
2023-2027	29,876	2,653	3,683	1,252	33,559	3,905
2028-2032	-	-	4,046	582	4,046	582
2033-2037	-	-	2,207	115	2,207	115
Total	$ 80,881	$ 17,848	$ 26,996	$ 8,070	$ 107,877	$ 25,918

Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)

	Governmental Activities	
Year Ended June 30	Principal	Interest
2018	$ 10,355	$ 4,656
2019	10,620	4,137
2020	2,180	3,607
2021	2,290	3,498
2022	2,405	3,384
2023-2027	13,955	14,991
2028-2032	17,815	11,134
2033-2037	22,735	6,212
2038-2042	10,765	814
Total	$ 93,120	$ 52,433
Premium on Certificates of Participation	$ 11,755	$ -
Total	$ 104,875	$ 52,433

Debt Service Fund

Minnesota Statutes, Section 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.

During fiscal year 2017, 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, 2017
(In Thousands)

Fund Type	Amount
General Fund	$ 689,237
Special Revenue Funds:	
Trunk Highway Fund	$ 193,539
Miscellaneous Special Revenue Fund	1,213
Total Special Revenue Funds	$ 194,752
Capital Projects Fund – Building Fund	$ 49
Internal Service Fund – Plant Management Fund	$ 6,085
Total Transfers to Debt Service Fund	$ 890,123

General Obligation Bond Issues

In August 2016, the state issued $798,955,000 general obligation bonds, Series 2016A through Series 2016D:

- Series 2016A for $265,890,000 in state various purpose bonds were issued at a true interest rate of 2.29 percent.
- Series 2016B for $215,000,000 in state trunk highway bonds were issued at a true interest rate of 2.13 percent.
- Series 2016C for $7,500,000 in taxable state bonds were issued at a true interest rate of 1.38 percent.
- Series 2016D for $310,565,000 in state various purpose refunding bonds were issued at a true interest rate of 1.57 percent. The aggregate debt service payments decreased by $40,627,000 and the economic gain (the present value of the debt service savings) for the state was $40,413,000.

The state remains contingently liable to pay its advance refunded general obligation and revenue bonds as shown in the following tables.

Primary Government
Outstanding Defeased Debt
General Obligation Bonds
(In Thousands)

Refunding Date	Original Refunding Amount	Refunded Amount	June 30, 2017 Outstanding Amount	Refunded Bond Call/Maturity Date
August 21, 2014	$ 5,449	$ 5,705	$ 4,760	October 1, 2021
August 21, 2014	9,727	10,185	9,055	August 1, 2022
August 21, 2014	6,776	6,500	6,500	August 1, 2017
August 19, 2015	268,019	299,200	299,200	August 1, 2017
August 19, 2015	101,224	113,000	113,000	June 1, 2018
August 19, 2015	14,900	14,050	14,050	June 1, 2018
August 11, 2016	126,762	139,860	139,860	December 1, 2019
August 11, 2016	85,514	94,350	94,350	August 1, 2019
August 11, 2016	98,289	108,445	108,445	November 1, 2019
Total	$ 716,660	$ 791,295	$ 789,220	

Primary Government
Outstanding Defeased Debt
Business-Type Activities
Revenue Bonds
(In Thousands)

Refunding Date	Original Refunding Amount	Refunded Amount	June 30, 2017 Outstanding Amount	Refunded Bond Call/Maturity Date
November 1, 2016	$ 18,945	$ 19,365	$ 16,890	June 1, 2018
November 1, 2016	33,438	34,180	30,625	June 1, 2019
November 1, 2016	39,332	40,205	36,580	June 1, 2019
Total	$ 91,715	$ 93,750	$ 84,095	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2017. This schedule includes all general obligation bonds that were sold, including bonds sold for the State Operated Community Services and State Colleges and Universities funds (enterprise funds).

Primary Government
General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2017
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates for Outstanding
Maximum Effort School Loan	$ -	$ 910	5.00%
Rural Finance Authority	35,035	27,359	1.40-5.00%
State Building	677	-	N/A
State Operated Community Services	-	172	5.00%
State Transportation	178,471	210,601	2.50-5.00%
Trunk Highway	1,290,057	1,726,795	2.00-5.00%
Trunk Highway Refunding Bonds	-	258,605	2.00-5.00%
Various Purpose	1,126,990	2,506,693	1.25-5.00%
Various Purpose Refunding Bonds	-	1,664,780	1.39-5.00%
Total	$ 2,631,230	$ 6,395,915	

State General Fund 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. 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, Section 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) that was created for that purpose by Minnesota Statutes, Chapter 473J. 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, Section 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 were issued at a true interest rate of 2.83 percent. On November 9, 2017, state General Fund appropriation bonds of $7,570,000 were issued at a true interest rate of 3.23 percent. See Note 22 - Subsequent Events.

The following table is a schedule of state General Fund appropriation bonds authorized, but unissued, and bonds outstanding as of June 30, 2017.

Primary Government
State General Fund Appropriation Bonds Authorized, but Unissued, and Bonds Outstanding
As of June 30, 2017
(In Thousands)

Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates
Professional Football Stadium	$ -	$ 436,630	1.68-5.00%
Pay-for-Performance	10,000	-	N/A
Refund Tobacco Securitization Authority	-	524,625	3.00-5.00%
Lewis and Clark Regional Water System	10,710	10,620	0.85-3.20%
Total	$ 20,710	$ 971,875	

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). $5,491,000 in loans from the Public Facilities Authority (component unit – Due to Component Unit) was outstanding for transportation projects. Other governmental activities loans are loans from energy companies to improve energy efficiencies and internal service fund loans for equipment purchases.

Business-type activities loans are loans to purchase equipment.

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.

Certificates of Participation

In August 2009, the state issued $74,980,000 of certificates of participation (COPs) at a true interest rate of 2.88 percent to finance the acquisition of computer software development intangible assets. The proceeds were used to develop the state's statewide financial and procurement system and the state's integrated tax accounting system. The COPs were issued under a trust agreement with U.S. Bank, NA., trustee, who will collect rental payments according to the principal and interest schedule pursuant to the Technology Systems Lease Purchase Agreement for remittance to the investors. 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 either or both projects and to take whatever legal action may appear necessary to collect rental payment(s).

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 predesign, design, and construction and equipping of offices, hearing rooms, and parking facilities for a legislative office facility. 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 either or both projects 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, Section 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, Section 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 effect 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, Section 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 five years 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 $3,992,000 for fiscal year 2017, have averaged less than eight 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 2017, principal and interest paid by Iron Range Resources and Rehabilitation on the bonds was $3,952,000. The total principal and interest remaining to be paid as of June 30, 2017, is $52,032,000 payable through October 2033.

The state is authorized by Minnesota Statutes, Section 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. Annual principal and interest payments on the bonds are expected to require less than 35 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2017, is $79,648,000 payable through June 2026. Principal and interest paid during fiscal year 2017 and total 911 fee revenues were $22,995,000 and $76,324,000, 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, Section 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 1.00 percent to 5.30 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 25 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $394,260,000. Principal and interest paid for the current year and total customer net revenues were $26,818,000 and $120,262,000, 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 36 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,721,000. Principal and interest paid and total customer net revenues during fiscal year 2017 were $174,000 and $493,000, respectively. These revenue bonds have a variable interest rate of 1.75 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, Section 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 $243,008,000 for closure and postclosure care claims are payable from the Environmental and Remediation Fund (special revenue fund) and the General Fund. There are currently 109 landfills in the program and five more landfills that are qualified, but not yet enrolled. One of the qualified sites, Freeway Landfill, has a liability of $103,112,000; 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 within the Environmental and Remediation Fund was established to address long-term costs through minimal withdrawals from a fund managed through the State Board of Investment to ensure long-term availability of resources beginning 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 are 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, 2017, were $77,117,000. Of this total, $65,275,000 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, Section 116.155, and the Petroleum Tank Cleanup Fund (special revenue fund), which was established under Minnesota Statutes, Section 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 2017, the Petroleum Tank Cleanup Fund has reimbursed eligible applicants approximately $445,000,000 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.

The governmental activities' and business-type activities' liability for workers' compensation of $80,836,000 and $4,617,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2017, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of $28,500,000 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 $234,500,000 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 the year 2057 for supplementary benefits and 2044 for second injuries.

The remaining $8,816,000 is for claims in the Risk Management Fund (internal service fund), $80,876,000 in the Employee Insurance Fund (internal service fund), and $10,261,000 in the Public Employees Insurance Fund (enterprise fund).

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of $316,016,000 and $155,139,000 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 2017, 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, Section 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 Statutes, Section 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 2017, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and General Employees Retirement Fund (GERF) was $2,078,000. The total principal and interest remaining to be paid as of June 30, 2017, is $15,568,000, 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
2018	$ 1,710	$ 370
2019	1,760	336
2020	1,785	300
2021	1,835	265
2022	1,875	228
2023-2025	4,760	344
Total	$ 13,725	$ 1,843
Bond Premium	$ 861	$ -
Total	$ 14,586	$ 1,843

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 $1,517,964,000 in general obligation bonds and general obligation grant anticipation notes outstanding on December 31, 2016, including unamortized discounts/premiums. During calendar year 2016, MC issued general obligation parks, transit, and wastewater bonds for a total of $164,080,000.

The University of Minnesota (U of M) issued general obligation bonds and revenue bonds for capital projects. On June 30, 2017, the principal amount of general obligation bonds and revenue bonds outstanding, including unamortized discounts/premiums, was $868,156,000 and $339,583,000, respectively.

Component Units
General Obligation Bonds
Major Component Units
(In Thousands)

	MC			U of M	
Year Ended December 31	Principal	Interest[1]	Year Ended June 30	Principal	Interest
2017	$ 127,640	$ 42,379	2018	$ 46,080	$ 37,288
2018	117,477	38,709	2019	47,860	35,181
2019	118,327	35,359	2020	36,550	33,293
2020	122,910	31,851	2021	37,960	31,567
2021	124,659	28,076	2022	40,185	29,709
2022-2026	486,809	86,604	2023-2027	173,390	122,688
2027-2031	250,184	30,003	2028-2032	189,000	75,359
2032-2036	92,695	5,682	2033-2037	132,205	37,559
2037-2041	-	-	2038-2042	72,510	11,916
2042-2046	-	-	2043-2047	17,145	1,035
Total	$ 1,440,701	$ 298,663	Total	$ 792,885	$ 415,595
Unamortized Discounts / Premiums and Issuance Costs	$ 77,263	$ -	Unamortized Discounts / Premiums and Issuance Costs	$ 75,271	$ -
Total	$ 1,517,964	$ 298,663	Total	$ 868,156	$ 415,595

[1] MC interest is net of Build America Bonds federal subsidy.

The Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue 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, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2017, including unamortized discounts/premiums, was $2,339,523,000.

The Office of Higher Education (OHE) is authorized by Minnesota Statutes, Section 136A.171 through Section 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, Section 136A.171. On June 30, 2017, the outstanding principal of revenue bonds was $468,218,000, including unamortized discounts/premiums.

The Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.04, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed $2,000,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2017, including unamortized discounts/premiums, was $976,500,000.

Component Units
Revenue Bonds
Major Component Units
(In Thousands)

Year Ended June 30	HFA Principal	HFA Interest	Year Ended June 30	U of M Principal	U of M Interest[1]
2018	$ 47,545	$ 67,744	2018	$ 11,045	$ 12,998
2019	41,585	67,000	2019	11,590	12,453
2020	37,510	66,161	2020	12,160	11,870
2021	38,830	65,248	2021	12,755	11,283
2022	40,030	64,220	2022	13,375	10,666
2023-2027	224,545	301,181	2023-2027	77,610	42,548
2028-2032	278,000	259,009	2028-2032	102,725	23,276
2033-2037	294,725	214,490	2033-2037	54,405	7,439
2038-2042	253,113	170,198	2038-2042	15,135	235
2043-2047	1,067,029	95,697	2043-2047	-	-
2048-2052	5,380	263	2048-2052	-	-
Total	$ 2,328,292	$ 1,371,211	Total	$ 310,800	$ 132,768
Unamortized Discounts / Premiums and Issuance Costs	$ 11,231	$ -	Unamortized Discounts / Premiums and Issuance Costs	$ 28,783	$ -
Total	$ 2,339,523	$ 1,371,211	Total	$ 339,583	$ 132,768

[1] Excludes interest on variable rate bonds with an outstanding principal balance of $32,850.

Component Units
Revenue Bonds
Nonmajor Component Units
(In Thousands)

Year Ended June 30	OHE Principal	OHE Interest	PFA Principal	PFA Interest
2018	$ 4,255	$ 6,663	$ 79,740	$ 42,661
2019	4,905	6,450	84,840	38,697
2020	4,600	6,204	86,190	34,467
2021	4,185	5,987	86,605	30,196
2022	3,625	5,819	74,510	26,324
2023-2027	-	28,371	253,990	90,300
2028-2032	-	28,371	154,905	36,926
2033-2037	27,100	28,371	70,405	9,015
2038-2042	134,300	24,216	-	-
2043-2047	185,000	13,417	-	-
2048	100,000	1,439	-	-
Total	$ 467,970	$ 155,308	$ 891,185	$ 308,586
Unamortized Discounts / Premiums and Issuance Costs	$ 248	$ -	$ 85,315	$ -
Total	$ 468,218	$ 155,308	$ 976,500	$ 308,586

Loans and Notes Payable

Metropolitan Council

The Metropolitan Council 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, 2016. 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.

In calendar year 2015, MC entered into an interest-free loan agreement with the Counties Transit Improvement Board. The loan was on a reimbursement basis and will fund the purchase of five light rail vehicles. The outstanding balance of the loan was $1,597,000 on December 31, 2016.

University of Minnesota

On December 17, 2014, the University of Minnesota issued taxable commercial paper notes of $51,620,000. U of M also issued tax-exempt commercial paper notes which are backed by U of M's self-liquidity. On June 30, 2017, the outstanding taxable commercial paper notes were $49,420,000 and tax-exempt notes were $212,900,000. Commercial paper is short-term in nature and is classified as current liabilities on the financial statements.

Housing Finance Agency

On June 30, 2017, the Housing Finance Agency had in place a revolving line of credit with an outstanding balance of $30,000,000. The line of credit is classified as a current liability on the financial statements.

National Sports Center Foundation

On December 31, 2016, the National Sports Center Foundation's total outstanding loans and notes payable was $3,143,000.

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, 2016, the present value of the minimum lease payments was $7,085,000.

University of Minnesota

The University of Minnesota has six distinct capital leases. Two of the six are 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, 2017, the net present value of the minimum lease payments was $17,437,000.

National Sports Center Foundation

In calendar year 2016, the National Sports Center Foundation entered into a capital lease agreement. On December 31, 2016, the total minimum lease payment was $278,000.

Variable Rate Debt

University of Minnesota

To protect against future interest rate fluctuations on U of M's general obligation bonds and for budgeting purposes, U of M entered into an interest rate swap. This was a freestanding pay-fixed, receive-variable interest rate swap. At June 30, 2017, this swap was considered an ineffective hedge, where the change in fair value was included in investment income reported in the Statements of Activities. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

Office of Higher Education

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15.0 percent and 12.0 percent, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and semi-annually, respectively. No principal payments are required until final maturity.

The rates on the tax-exempt Series 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A and 2011B bonds cannot exceed 12.0 percent. Interest payments on the Series 2011A and 2011B bonds are payable semi-annually and no principal payments are required until final maturity.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2.0 percent to 5.0 percent. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.89 percent for the year ended June 30, 2017.

The rates on the tax-exempt Series 2012B bonds are both fixed rate and variable rate. For the fixed rate bonds, the rate is set at 2.58 percent. For the variable rate bonds, the rate is a percentage of the one-month London Inter-Bank Offered Rate (LIBOR) plus a set margin and the rate changes monthly. The

bonds have mandatory redemption dates at various years throughout the life of the bonds with a balloon payment due at final maturity.

Housing Finance Agency

As of June 30, 2017, 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, 2017, was reported in "Accumulated Decrease in Fair Value of Hedging Derivatives" 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, Investment, and Derivative Instruments for more information.

Bond Defeasances

In prior years, U of M defeased various bonds 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 for special purpose revenue bonds 2006 Series was $99,220,000. The revenue bonds were redeemed on August 1, 2016 and are no longer outstanding. The amount defeased for general obligation bonds 1982 and 1996 Series A was $271,635,000 with $80,000 outstanding as of June 30, 2017. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in U of M's financial statements as of June 30, 2017.

Note 14 – Segment Information

Primary Government
Segment Information Financial Data
Year Ended June 30, 2017
(In Thousands)

Description	State Colleges and Universities (MnSCU) Revenue Fund	State Colleges and Universities (MnSCU) Itasca Residence Halls	911 Services
Condensed Statement of Net Position			
Assets:			
Current Assets	$ 93,201	$ 464	$ 37,285
Restricted Assets	73,862	296	-
Capital Assets	421,003	2,715	119,834
Total Assets	$ 588,066	$ 3,475	$ 157,119
Deferred Outflows of Resources	$ 25,364	$ -	$ 10,657
Liabilities:			
Current Liabilities	$ 42,660	$ 142	$ 22,908
Noncurrent Liabilities	335,286	1,340	74,979
Total Liabilities	$ 377,946	$ 1,482	$ 97,887
Deferred Inflows of Resources	$ 2,153	$ -	$ 1,111
Net Position:			
Net Investment in Capital Assets	$ 142,868	$ 1,245	$ 48,414
Restricted	90,463	296	20,364
Unrestricted	-	452	-
Total Net Position	$ 233,331	$ 1,993	$ 68,778
Condensed Statement of Revenues, Expenses and Changes in Net Position			
Operating Revenues - Customer Charges	$ 120,261	$ 493	$ 76,324
Depreciation Expense	(22,729)	(119)	(10,913)
Other Operating Expenses	(85,050)	(245)	(25,244)
Operating Income (Loss)	$ 12,482	$ 129	$ 40,167
Nonoperating Revenues (Expenses):			
Interest Income	$ 1,256	$ 5	$ 10
Capital Contributions	1,194	-	-
Interest Expense	(9,395)	(45)	(1,953)
Other	(33)	-	(16,352)
Transfers-In (Out)	-	-	(683)
Change in Net Position	$ 5,504	$ 89	$ 21,189
Beginning Net Position	227,827	1,904	47,589
Ending Net Position	$ 233,331	$ 1,993	$ 68,778
Condensed Statement of Cash Flows			
Net Cash Provided (Used) By:			
Operating Activities	$ 37,679	$ 243	$ 53,892
Noncapital Financing Activities	(50)	-	(50,793)
Capital and Related Financing Activities	(43,473)	(175)	(7,657)
Investing Activities	1,593	5	10
Net Increase (Decrease)	$ (4,251)	$ 73	$ (4,548)
Beginning Cash and Cash Equivalents	$ 166,157	$ 351	$ 40,739
Ending Cash and Cash Equivalents	$ 161,906	$ 424	$ 36,191

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.
- 911 Services Fund accounts for activities related to the enhancement of the state's 911 emergency response system.

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 operations and position.

Note 15 – Contingent Liabilities

University of Minnesota

The University of Minnesota (U of M) (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 2017, there was $80,745,000 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 ranging from $850,000 to $15,550,000 per year not to exceed 25 years starting in fiscal year 2010 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 2017, $171,655,000 was outstanding on these bonds.

Housing Finance Agency

The Housing Finance Agency (HFA) (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 2017, there was $24,720,000 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, the Minnesota Legislature appropriated from the General Fund up to an additional $2,800,000 per year beginning in fiscal year 2019 through 2040. HFA issued state-secured appropriation bonds of $12,690,000 in October 2017. See Note 22 – Subsequent Events. As of October 2017, $116,185,000 was outstanding on these bonds.

School District Credit Enhancement Program

Minnesota Statutes, Section 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 October 2017 was $13.2 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, Section 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 October 2017, the total general obligation bonds guaranteed by the state through 2045, was $643 million.

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:

Primary Government
Restricted Net Position Balances
As of June 30, 2017
(In Thousands)

Purpose of Restriction	Restricted by Constitution	Restricted by Enabling Legislation	Restricted by Other	Total
Improve Agricultural, Environmental, and Energy Resources	$ 1,486,323	$ 247,857	$ 31,376	$ 1,765,556
Enhance Arts and Culture	18,662	-	-	18,662
Acquire, Maintain, and Improve Land and Buildings	-	-	503	503
Retire Indebtedness	486,613	-	120,935	607,548
Develop Economy and Workforce	-	169,892	4,969	174,861
Enhance E-12 Education	-	7,025	3,232	10,257
Enhance State Government	-	32,008	8,919	40,927
Enhance Health and Human Services	-	15,539	1,947	17,486
Enhance Higher Education	-	-	14,844	14,844
Enhance 911 Services and Increase Safety	-	49,557	20,631	70,188
School Aid - Expendable	8,455	-	-	8,455
School Aid - Nonexpendable	1,327,794	-	1,000	1,328,794
Construct Highways and Improve Infrastructure	1,563,945	58,658	882	1,623,485
Unemployment Benefits	-	-	1,677,206	1,677,206
Other Purposes	-	-	61,692	61,692
Total Restricted Net Position	$ 4,891,792	$ 580,536	$ 1,948,136	$ 7,420,464

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:

Governmental Funds
Fund Balances
As of June 30, 2017
(In Thousands)

Fund Balances	General Fund	Major Special Revenue Fund: Federal Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventory	$ -	$ -	$ 40,649	$ 40,649
Trust or Permanent Fund Principal	1,034,219	-	1,328,794	2,363,013
Total Nonspendable Fund Balances	$ 1,034,219	$ -	$ 1,369,443	$ 2,403,662
Purpose of Restriction:				
Improve Agricultural, Environmental, and Energy Resources	$ -	$ 138	$ 758,258	$ 758,396
Enhance Arts and Culture	-	-	18,662	18,662
Acquire, Maintain, and Improve Land and Buildings	-	-	63,226	63,226
Retire Indebtedness	-	-	911,545	911,545
Develop Economy and Workforce	86,464	241	148,804	235,509
Enhance E-12 Education	478	-	17,660	18,138
Enhance State Government	-	7,142	32,930	40,072
Enhance Health and Human Services	-	-	17,071	17,071
Enhance Higher Education	-	-	7	7
Enhance 911 Services and Increase Safety	-	-	48,376	48,376
Construct Highways and Improve Infrastructure	-	755	1,604,414	1,605,169
Total Restricted Fund Balances	$ 86,942	$ 8,276	$ 3,620,953	$ 3,716,171

Continued

Governmental Funds
Fund Balances (continued)
As of June 30, 2017
(In Thousands)

Fund Balances	General Fund	Major Special Revenue Fund Federal Fund	Nonmajor Governmental Funds	Total
Purpose of Commitment:				
Improve Agricultural, Environmental, and Energy Resources	$ -	$ -	$ 129,699	$ 129,699
Develop Economy and Workforce	-	-	259,558	259,558
Enhance E-12 Education	-	-	7,985	7,985
Enhance State Government	-	-	25,409	25,409
Enhance Health and Human Services	-	-	362,297	362,297
Enhance 911 Services and Increase Safety	-	-	113,989	113,989
Construct Highways and Improve Infrastructure	-	-	53,676	53,676
Total Committed Fund Balances	$ -	$ -	$ 952,613	$ 952,613
Purpose of Assignment:				
Improve Agricultural, Environmental, and Energy Resources	$ 186,541	$ -	$ -	$ 186,541
Acquire, Maintain, and Improve Land and Buildings	-	-	43,454	43,454
Develop Economy and Workforce	171,344	-	-	171,344
Enhance E-12 Education	58,104	-	-	58,104
Enhance State Government	92,650	-	-	92,650
Enhance Health and Human Services	148,235	-	505,000	653,235
Enhance Higher Education	27,095	-	-	27,095
Enhance 911 Services and Increase Safety	43,018	-	-	43,018
Construct Highways and Improve Infrastructure	30,069	-	-	30,069
Total Assigned Fund Balances	$ 757,056	$ -	$ 548,454	$ 1,305,510
Unassigned	$ 1,528,516	$ -	$ -	$ 1,528,516
Total Fund Balances	$ 3,406,733	$ 8,276	$ 6,491,463	$ 9,906,472

Net Position Deficits

The following funds have net position deficits for the fiscal year ended June 30, 2017:

Net Position Deficits
As of June 30, 2017
(In Thousands)

Fund Type	Net Position
Enterprise Funds:	
Behavioral Services	$ (17,875)
State Auditor	(6,708)
State Lottery	(14,843)
State Operated Community Services	(46,345)
Internal Service Funds:	
Central Services	$ (2,234)
MN.IT Services	(266,653)
Plant Management	(3,751)

The fiscal year 2015 implementation of 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. This caused the nonmajor enterprise and internal services funds noted in the table above to end fiscal year 2017 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. For these reasons, the state does not include the pension-related liabilities or deferred inflows 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 Minnesota Legislature.

Three of the enterprise funds have net position deficits for in excess of the pension reporting noted above. See the following for explanations:

Behavioral Services Fund has been undergoing a restructuring of services due to a shift in service demand. This restructuring has included the closure of one site and the downsizing of a second site. These changes have resulted in additional costs to the program during the fiscal year as well as a loss of revenue. Final restructuring of the services will continue into fiscal year 2018 and it is anticipated additional one-time costs will be incurred.

State Auditor Fund will be closing into the General Fund. The Minnesota Laws of 2017, Chapter 4, Article 2, Section 57 require that all receipts for fiscal year 2018 and beyond, as well as those previously collected in the State Auditor Fund be credited to the General Fund. It also required that amounts remaining in the State Auditor Fund at the close of fiscal year 2017 be transferred to the General Fund. In compliance with this law, the State Auditor Fund transferred approximately $977,000 to the General Fund at the close of fiscal year 2017, which contributed to the deficit net position.

State Operated Community Services Fund has been undergoing a restructuring of services that is intended to change the population being serviced by focusing on individuals that require a more intense level of service. This change in focus is part of an ongoing five year plan that began two years ago and will continue over the next three fiscal years.

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 (internal service 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. The reinsurance program provides 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 $25,000 maintenance deductible for each claim. 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’s 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 foster care liability. The premiums for these policies are billed back to the agencies at cost.

Minnesota Statutes, Section 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, an 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 $2,406,000 less than coverage during the fiscal year ended June 30, 2017.

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 Employee 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, Section 43A.316. Beginning in fiscal year 1998, medical benefits provided through PEIP became a self-insured program.

PEIP's membership as of June 30, 2017, was 11,612 members and their dependents. The members of the pool include 83 school districts, 44 cities/townships, 10 counties, and 18 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 Claim Liabilities
(In Thousands)

Description		Beginning Claims Liability		Net Additions and Changes in Claims		Payment of Claims		Ending Claims Liability
Risk Management Fund:								
Fiscal Year Ended 6/30/16	$	11,751	$	1,140	$	3,368	$	9,523
Fiscal Year Ended 6/30/17	$	9,523	$	3,429	$	4,136	$	8,816
Tort Claims:								
Fiscal Year Ended 6/30/16	$	-	$	920	$	920	$	-
Fiscal Year Ended 6/30/17	$	-	$	982	$	982	$	-
Workers' Compensation:								
Fiscal Year Ended 6/30/16	$	92,917	$	15,606	$	19,368	$	89,155
Fiscal Year Ended 6/30/17	$	89,155	$	15,365	$	19,067	$	85,453
State Employee Group Insurance:								
Fiscal Year Ended 6/30/16	$	71,280	$	770,413	$	771,306	$	70,387
Fiscal Year Ended 6/30/17	$	70,387	$	802,403	$	791,914	$	80,876

Primary Government
Public Employee Insurance Program
Medical Claims
(In Thousands)

Description	Year Ended June 30 2017		2016	
Unpaid Claims and Claim Adjustment Expenses, Beginning	$	10,428	$	8,376
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of Current Year	$	99,399	$	97,089
Increases (Decreases) in Provision for Insured Events of Prior Years		264		1,163
Total Incurred Claims and Claim Adjustment Expenses	$	99,663	$	98,252
Payments:				
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	$	90,091	$	87,378
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years		9,739		8,822
Total Payments	$	99,830	$	96,200
Total Unpaid Claims and Claim Adjustment Expenses, Ending	$	10,261	$	10,428

Component Units

Housing Finance Agency

The Housing Finance Agency (HFA) is exposed to various insurable risks of loss related to tort; to 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, Section 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 a discount rate of 3.02 percent. The self-insurance retention limit for workers' compensation is $2,000,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

MC claims include both workers' compensation claims and $228,000 for the Family Self Sufficiency Program escrow accounts.

University of Minnesota

The University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors' and officers' liability, and automobile liability 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 0.75 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 two 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.

Component Units
Claims Liabilities
(In Thousands)

Description	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council - Workers' Compensation:				
Fiscal Year Ended 12/31/15	$ 16,672	$ 11,281	$ 6,279	$ 21,674
Fiscal Year Ended 12/31/16	$ 21,674	$ 1,805	$ 6,645	$ 16,834
University of Minnesota - RUMINCO, Ltd:				
Fiscal Year Ended 6/30/16	$ 6,706	$ 2,297	$ 825	$ 8,178
Fiscal Year Ended 6/30/17	$ 8,178	$ 3,145	$ 2,068	$ 9,255
University of Minnesota - Workers' Compensation:				
Fiscal Year Ended 6/30/16	$ 13,974	$ 3,640	$ 4,849	$ 12,765
Fiscal Year Ended 6/30/17	$ 12,765	$ 3,357	$ 2,404	$ 13,718
University of Minnesota - Medical/Dental:				
Fiscal Year Ended 6/30/16	$ 20,227	$ 255,957	$ 249,957	$ 26,227
Fiscal Year Ended 6/30/17	$ 26,227	$ 264,437	$ 261,636	$ 29,028

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 basis 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, 2017
(In Thousands)

Description	Amount
GAAP Basis Fund Balance	$ 3,406,733
Less: Encumbrances[1]	306,907
Unassigned Fund Balance	$ 3,099,826
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (497,374)
Tax Refunds Payable	477,710
Human Services Receivable	(112,419)
Unearned Revenue	176,110
Escheat Asset	(15,362)
Other Receivables	(6,945)
Permanent School Fund Reimbursement	(1,400)
Investments at Market	8,846
Expenditure Accruals/Adjustments:	
Medical Care Programs	782,983
Human Services Grants Payable	50,581
Education Aids	889,762
Police and Fire Aid	101,127
Other Payables	28,909
Other Financial Sources (Uses):	
Transfer-In	(17,013)
Transfer-Out	7,685
Perspective Differences:	
Account with no Legally Adopted Budget	(1,579,433)
Long-Term Receivables	(22,151)
Appropriation Carryover	(361,657)
Budgetary Reserve	(1,980,264)
Budgetary Basis:	
Unassigned Fund Balance	$ 1,029,521

[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, 2018 and 2019 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).

- *A.W. Kuettel & Sons, Inc., et al. v. Essar Steel Minnesota LLC, et al.* (Itasca County District Court) and *TrueNorth Steel, Inc. v. Essar Steel Minnesota LLC* (Itasca County District Court). These mechanics' lien suits involve numerous parcels of property surrounding the Essar Steel Minnesota Integrated Pellet Plant in Nashwauk, Minnesota. The state is a named defendant in these suits because it owns some of the subject parcels. The state's parcels were leased to Essar Steel Minnesota LLC (Essar) for mining purposes, however, Essar filed for Chapter 11 bankruptcy. A.W. Kuettel, TrueNorth Steel, and approximately eight other contractors and subcontractors, which supplied materials and/or labor to the properties for Essar, have filed claims and cross-claims against the state and the other defendants that total approximately $42 million exclusive of interest and attorneys' fees. The claims allege the state is liable for the amounts owing because the state has an ownership interest in some of the properties, had knowledge of the improvements, will be unjustly enriched by the improvements, and violated the Public Contractors' Performance and Payment Bond Act by not obtaining payment bonds for these matters. These suits are currently stayed and will remain stayed until further order in Essar's bankruptcy case.

- *Foster v. State of Minnesota et al.* (Eighth Circuit Court of Appeals). Plaintiff sued the state, the current Attorney General, and the Commissioner of the Minnesota Department of Management and Budget alleging an unconstitutional taking of her property based on the release of statutory consumer fraud claims against major tobacco companies in the state's 1998 tobacco settlement. The 1998 settlement provided for up-front and annual payments to the state and injunctive relief, in exchange for which the state released its statutory consumer protection claims against the settling tobacco companies. In 2012, the Minnesota Supreme Court held that this release included related statutory consumer protection claims that might be prosecuted by private Minnesota consumers under the authority provided in Minnesota Statutes, Section 8.31, subdivision 3a. Plaintiff previously alleged the same takings theory in a state court action. The state district court dismissed the case both for failing to state a claim and for failing to commence it within the applicable statute of limitations. The Minnesota Court of Appeals affirmed the dismissal on the statute of limitations basis without addressing the merits of the takings claim, and the Minnesota Supreme Court denied Plaintiff's petition for review. Plaintiff then re-filed the takings claim in federal court, alleging that her federal takings claim is sufficiently distinct from her state takings claim and can be pursued separately in federal court. The federal district court dismissed the case, and Plaintiff appealed to the Eighth Circuit. The case has been briefed and it will be argued in December court at a date to be determined.

- *Hall v. State of Minnesota et al.* (Minnesota Supreme Court). In a putative class action filed in 2015, four plaintiffs challenge Minnesota's Uniform Disposition of Unclaimed Property Act (MUPA), alleging it deprives them of property without due process and without just compensation as no interest is paid to owners when they claim their unclaimed property. Plaintiffs seek class certification, damages, declaratory and injunctive relief, and attorneys' fees. The district court denied defendants' motion to dismiss and certified the takings and due process claims to the court of appeals as important and doubtful. Plaintiffs allege that the state holds over $600 million in unclaimed property. If the class is certified and Plaintiffs prevail on their claims, the state's exposure may exceed $15 million. The defendants' appealed the denial of their motion to dismiss, and the court of appeals held that MUPA is constitutional and reversed the district court's legal conclusions. The case is now pending at the Minnesota Supreme Court.

- *H.B. Fuller Co. and Subsidiaries v. Commissioner of Revenue, and other similar matters* (Minnesota Tax Court and Second Judicial District Court – Ramsey County). This is a corporate franchise tax case filed in October 2016 involving computation of the research credit allowed by Minnesota Statutes, Section 290.068. The Department of Revenue estimates that if similarly situated taxpayers make a similar claim, the total exposure may exceed $15 million. Several other cases raising the same issue have since been filed in the Minnesota Tax Court and in state district court, including a $33 million dollar claim by IBM. All of the cases are scheduled for briefing due in February 2018 with hearings scheduled in the tax court at a date to be determined. The Department of Revenue estimates that if similarly situated taxpayers make similar claims, the total refund exposure may exceed $140 million.

- *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 by Itasca County to Magnetation LLC (Magnetation) for mining purposes, however, Magnetation filed for Chapter 11 bankruptcy. 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. The claims allege the state is liable for the amounts owing because the state has an ownership interest in the properties, had knowledge of the improvements, will be unjustly enriched by the improvements, and violated the Public Contractors' Performance and Payment Bond Act by not obtaining payment bonds for these matters. These suits are currently stayed and will remain stayed until further order in Magnetation's bankruptcy case.

- *Kiminski v. Hunt et al (formerly Beach/Ness v. Hunt et al.)* and similar matters. In January 2013, the Department of Natural Resources (DNR) notified approximately 5,000 residents that their drivers' license data may have been improperly viewed by a former DNR employee. Five putative class actions were then filed in federal court against DNR, the Department of Public Safety (DPS), and various state employees in their individual and official capacities alleging violations of federal and state law resulting from Hunt's conduct. All were dismissed and not appealed, but approximately 40 additional lawsuits were later filed that alleged county, municipal, and private parties improperly accessed driver's license data and that state employees, in their official capacities, were liable for failing to prevent the allegedly unauthorized access. The suits request relief under the federal Drivers Privacy Protection Act and 42 U.S.C. § 1983, seeking statutory damages, actual damages, punitive damages, injunctive relief, and attorneys' fees. The state

employees have been dismissed from every lawsuit at the district court level. The Eighth Circuit has affirmed the dismissal of state defendants in each case it has decided. Several cases remain pending in the district court while it addresses the claims against non-state defendants. The U.S. Supreme Court denied certiorari review of the cases in which the plaintiffs sought review.

- *Ligons, et al. v. Minnesota Department of Corrections, et al. (U.S. Dist. Ct., Minnesota).* Two inmates filed a lawsuit seeking treatment for inmates with a Hepatitis C infection (HCV). The state defendants moved for summary judgment on all claims in March 2017. In April 2017, the two named plaintiffs filed their motion seeking to certify classes of Minnesota inmates. One class is framed as consisting of inmates in Minnesota prisons who are infected with HCV and who wish to receive treatment with direct-acting antiviral medication. The state defendants filed their memorandum opposing class certification in June 2017. The summary judgment motion and class certification motion were argued on July 26, 2017 and are currently being held in abeyance to the plaintiff's retention of new class counsel. On October 3, 2017, new counsel filed a notice of appearance on behalf of the plaintiffs. On October 4, 2017, the Court denied the state defendants' motion for summary judgment and the plaintiff's motion for class certification without prejudice. Plaintiffs have until December 4, 2017 to file a third amended complaint.

- *Minnesota Energy Resources Corp. (MERC) v. Commissioner of Revenue* (Minnesota Tax Court). The plaintiff, a natural gas pipeline corporation, appeals the market valuations made of the pipeline corporation's real, personal, and operating property subject to assessment in 53 counties in Minnesota. The separate appeals for tax years 2008-2012 are consolidated. MERC has also filed separate appeals for the 2013 and 2014 years. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value, as defined in Minnesota Statutes, Section 272.03, subdivision 8, of the pipeline's property in Minnesota and in its determination has employed methods which overstate the market value and arrived at a value in excess of market value; and (2) that the pipeline's property in Minnesota was unfairly and unequally assessed compared to property in the same class and the property of similarly situated taxpayers in violation of Minnesota Statutes, Section 273.11, the Equal Protection Clause; the Uniformity of Taxation Clause (Article X, Section 1) and the Due Process Clause of the Minnesota Constitution and the Equal Protection and Due Process Clause of U.S. Constitution. The apportionable 2008 market value for this property is $126 million under the Minnesota rule in effect for 2008. A new Minnesota rule governs calculation for the 2009-2011 tax years. MERC objects to both the old and new rules. Specifically, MERC disagrees with how the capitalization rate is calculated, the fact that external obsolescence is not included in depreciation and the weighting of cost factors and, thus, claims that the property tax assessments are not applied evenly throughout Minnesota. In September 2014, the Tax Court issued a decision in the 2008-2012 consolidated cases. The decision upheld certain of MERC's claims and denied other claims. For all five years combined, the net result of the Tax Court's decision is that MERC would receive a total refund of $1.35 million, only 30 percent of which would be the state's share. Both sides appealed to the Supreme Court. The 2013 and 2014 appeals have been stayed pending final resolution of the 2008-2012 cases. On November 9, 2016, the Minnesota Supreme Court issued an opinion affirming in part and reversing in part the Minnesota Tax Court's decision, and it remanded the case for further proceedings. MERC has now filed separate appeals for 2015 and 2016, which have been stayed along with the 2013 and 2014 separate appeals. On April 17, 2017, the Tax Court issued its order, which did not change the refund amount. MERC has filed another appeal in the Minnesota Supreme Court for the 2008 through 2012 case.

- *Murphy, et al. v. Minnesota Department of Human Services (DHS) et al.* (United States District Court, District of Minnesota). In Murphy, the plaintiffs receive Medicaid Home and Community Based Waiver Services (HCBS) programs and brought 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." Defendants brought a motion to dismiss. The court also ordered discovery to proceed. The Defendants 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.

- *Walgreens Specialty Pharmacy v. Commissioner of Revenue* (Minnesota Tax Court). This is a Legend Drug Use Tax case. Appellant sought a refund totaling approximately $14.4 million for tax years 2008 through 2013, which was denied. Appellant argues that the Minnesota Department of Revenue (DOR) misapplied the applicable statute. Dispositive motions were filed and hear on July 14, 2017. On October 16, 2017, the Minnesota Tax Court granted Walgreens' Specialty Pharmacy's motion for summary judgment. The Commissioner will have until December 15, 2017 to appeal to the Minnesota Supreme Court. DOR estimates that if similarly-situated taxpayers successfully brought refund claims, the total refund exposure would exceed $84 million.

Note 20 – Tax Abatements

The state of Minnesota provides tax abatement through five programs operated by the Minnesota Department of Employment and Economic Development and Minnesota Department of Revenue: the Greater MN Job Expansion Program, Job Opportunity Building Zones, Biopharmaceutical Manufacturing Facility, Border City Enterprise Zones, and Angel Tax Credit. Minnesota Statutes, Section 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, with the exception of 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 $5,000,000 annually and $40,000,000 during the agreement period. The agreement period is seven years after a business is certified, except for businesses investing at least $200,000,000 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, Section 116J.8738.

The Job Opportunity Building Zones program provides tax abatements to expand employment in economically distressed regions of the state. Taxes abated include: individual income taxes, corporate income taxes, sales and use taxes, motor vehicles taxes, property taxes, and wind energy production taxes. A qualified business must be located within a job opportunity building zone, which are designated by the state. The business must enter into a business subsidy agreement with the state indicating it will meet employment expansion and wage level requirements. The program sunset date was December 31, 2015 so no new businesses may enroll in the program. However, three current businesses met the requirements under Minnesota Statutes, Section 469.312 and was eligible to receive benefits through 2018. Individual income taxes are reduced through business income exemptions based on zone percentages, qualified net rents determined by formula, and capital gains exemption determined by formula. Corporate income tax exemptions are based on zone percentages. Sales and use tax, and motor vehicle sales tax are reduced for qualified property or services used in the job opportunity building zone. Property taxes are reduced through exemptions for improvements to real property. Wind energy production taxes are reduced for electricity produced by wind energy conversion systems within a job opportunity building zone. A business that relocates from outside the zone into a zone qualifies for the program only if it agrees to increase full-time employment during the first year by a minimum of five jobs or 20 percent of the employer's workforce prior to entering into the business subsidy agreement. Employers must repay all tax benefits received during the two years prior to the point in time that it ceased to be in compliance with the business subsidy agreement. The authority for Job Opportunity Building Zone tax abatements are Minnesota Statutes, Section 469.310 – 469.3201.

The Biopharmaceutical Manufacturing Facility program provides sales tax abatements to create new jobs in the biopharmaceutical industry. Qualified manufacturing facilities are eligible for a sales tax refund on materials and supplies used in construction, improvement, or expansion of biopharmaceutical manufacturing facilities, paid annually at 25 percent of the total allowable refund. To be eligible for the exemption, the biopharmaceutical manufacturing facility must have a total capital investment exceeding $50,000,000, and the facility must create and maintain at least 190 new Minnesota full-time equivalent (FTE) employees at the facility. A qualified manufacturing facilities must meet its minimum FTE requirements to remain eligible. The authority for the sales tax abatement is Minnesota Statute, Section 297A.71, Subdivision 45.

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, Section 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, Section 469.169. Prior to entering a tax abatement agreement with a business, the border city must submit the proposed tax reductions to the Department of Employment and Economic Development to evaluate the proposed investment the business will make in the border city, the number of quality 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. Business which receive tax abatements that cease to operate within the city must repay the tax abatement 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, Section 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 it is determined that a qualified investor does not meet the three year holding requirement, the investor must repay the income tax credit. A qualified small business must satisfy all of 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 the fields of a qualified 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 $4,000,000, be disqualified under section 80A.50 of the law, or issued securities traded on a public exchange. The business may not have been in operation for more than ten years, or more than 20 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 authority for the tax abatement is Minnesota Statutes, Section 116J.8737.

Tax Abatements
Year Ended June 30, 2017
(In Thousands)

Description	Amount
Border City Enterprise Zones:	
Corporate Taxes	$ 245
Income Taxes	117
Property Taxes	18
Total Border City Enterprise Zones	$ 380
Angel Tax Credit: Income Taxes	$ 14,807
Total	$ 15,187

Note 21 – Prior Period Adjustment, Change in Reporting Entity and Change in Fund Structure

Primary Government

Prior Period Adjustments

During fiscal year 2017, the Department of Board of Water, Soil and Resources increased nondepreciable easements in governmental activities for unrecorded easements. A prior period adjustment of $70,256,000 was reflected in Governmental Activities in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

During fiscal year 2017, the Department of Administration increased buildings and accumulated depreciation on buildings in governmental activities for unrecorded buildings and accumulated depreciation. A prior period adjustment of $33,818,000 was reflected in Governmental Activities in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

During fiscal year 2017, the Department of Transportation decreased accumulated depreciation on depreciable easements in governmental activities for depreciation previously recorded on land that was transferred to nondepreciable land in the current year. A prior period adjustment of $536,000 was reflected in Governmental Activities in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

Change in Reporting Entity

Minnesota Statutes, Section 353G, allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2017, seventeen firefighter groups joined the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association. Investment balances of $6,285,000 were reported as a change in reporting entity in the Volunteer Firefighter Retirement Fund.

Change in Fund Structure

Minnesota Statutes, Chapter 353G, allows volunteer firefighters to be covered by the Volunteer Firefighter Retirement Fund (pension trust fund). During fiscal year 2017, twelve firefighter groups moved from the volunteer fire accounts, part of the Supplemental Retirement Fund (investment trust fund), into the Volunteer Firefighter Retirement Fund managed by the Public Employees Retirement Association. The transfer was reported as a change in fund structure of $3,898,000 in the Supplemental Retirement Fund and the Volunteer Firefighter Retirement Fund.

Note 22 – Subsequent Events

Primary Government

On October 11, 2017, the state sold $312.3 million of general obligation state various purpose bonds Series 2017A at a true interest rate of 2.74 percent, $114.0 million of general obligation state trunk highway bonds Series 2017B at a true interest rate of 2.57 percent, $27.0 million general obligation taxable state various purpose bonds Series 2017C at a true interest rate of 2.02 percent, $323.8 million of general obligation state various purpose refunding bonds Series 2017D at a true interest rate of 2.07 percent, and $81.1 million of general obligation state trunk highway refunding bonds Series 2017E at a true interest rate of 1.92 percent. These bonds are backed by the full faith and credit and taxing powers of the state.

On November 9, 2017, the state sold $7.6 million of state General Fund appropriation bonds taxable Series 2017A at a true interest rate of 3.23 percent. The bonds were issued to finance the completion of the next phase of the Lewis and Clark Regional Water System Project, including the costs associated with the completion of a water transmission pipeline in southwest Minnesota. For information on the state appropriation for these bonds, see Note 12 – Long-Term Liabilities – Primary Government.

Component Units

On October 12, 2017, the Housing Finance Agency (HFA) issued state appropriation bonds (Housing Infrastructure) for $12.7 million Series 2017A at a true interest rate of 3.01 percent. 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. The state will provide to HFA up to an additional $2.8 million per year beginning in fiscal year 2019 through fiscal year 2040 for the payment of the bonds. For information on the state appropriation for these bonds, see Note 15 – Contingent Liabilities.

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 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.

	Principal Arterial Average PQI	Non-Principal Arterial Average PQI
2016	3.46	3.31
2015	3.42	3.32
2014	3.41	3.35

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 be maintained at fair to good.

Assessed Conditions

Principal Arterial	2016	2015	2014
Fair to Good	95.0%	94.9%	95.2%

All Other Systems	2016	2015	2014
Fair to Good	95.0%	94.4%	93.8%

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			
		Bridges	Pavement	Total Costs	Bridges	Pavement	Total Costs	Total Construction Program
Budget	2017	$ 149,000	$ 376,000	$ 525,000	$ 100,000	$ 500,000	$ 600,000	$ 1,125,000
	2016	234,366	400,943	635,309	112,444	462,387	574,831	1,210,140
	2015	255,033	230,075	485,108	55,789	403,213	459,002	944,110
	2014	251,019	248,841	499,860	78,143	627,255	705,398	1,205,258
	2013	179,581	289,898	469,479	36,480	691,872	728,352	1,197,831
Actual	2017	$ 114,106	$ 337,294	$ 451,400	$ 84,046	$ 526,975	$ 611,021	$ 1,062,421
	2016	232,087	403,563	635,650	79,748	652,665	732,413	1,368,063
	2015	197,844	384,351	582,195	71,852	606,939	678,791	1,260,986
	2014	233,201	301,058	534,259	64,837	593,933	658,770	1,193,029
	2013	137,387	190,739	328,126	58,127	615,638	673,765	1,001,891

Defined Benefit Plans – State Participating

The state of Minnesota currently contributes as an employer and/or non-employer contributing entity into four 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.

Required supplementary information is provided for the following plans:

- State Employees Retirement Fund (SERF)
- Correctional Employees Retirement Fund (CERF)
- General Employees Retirement Fund (GERF)
- Minneapolis Employees Retirement Fund (MERF)
- Teachers Retirement Fund (TRF)
- Duluth Teachers' Retirement Fund (DTRF)
- St. Paul Teachers' Retirement Fund (SPTRF)
- 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)

	SERF				CERF			
	2014	2015[2]	2016	2017	2014	2015[3]	2016	2017
Statutorily Required Contribution as an Employer[1]	$ 93,957	$ 107,313	$ 110,804	$ 116,552	$ 26,421	$ 29,378	$ 30,624	$ 31,663
Covered-Member Payroll	$ 1,923,040	$ 2,006,862	$ 2,066,651	$ 2,113,550	$ 218,860	$ 231,126	$ 241,020	$ 244,830
Required Employer Contributions as a Percentage of Covered-Member Payroll	4.9%	5.3%	5.4%	5.5%	12.1%	12.7%	12.7%	12.9%

[1] Statutorily required contributions equal actual required contributions.
[2] SERF 2015: The required contribution rate for employers increased from 5.0% to 5.5%.
[3] CERF 2015: The required contribution rate for employers increased from 12.1% to 12.9%.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015.

Required Supplementary Information
Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

	GERF				MERF[3]	
	2014	2015[2]	2016	2017	2014	2015
Statutorily Required Contribution as an:						
Employer[1]	$ 2,782	$ 2,655	$ 2,540	$ 3,155	$ -	$ -
Non-Employer Contributing Entity[1]	-	-	6,000	6,000	24,000	24,000
Total Statutorily Required Contribution	$ 2,782	$ 2,655	$ 8,540	$ 9,155	$ 24,000	$ 24,000
Covered-Member Payroll	$ 37,715	$ 34,289	$ 41,328	$ 38,686	N/A	N/A
Required Employer Contributions as a Percentage of Covered-Member Payroll	7.4%	7.7%	6.1%	8.2%	N/A	N/A

[1] Statutorily required contributions equal actual required contributions.
[2] GERF 2015: The required contribution rates for employers increased from 7.3% - 11.8% to 7.5% - 11.8% on January 1, 2015.
[3] MERF merged with GERF in reporting fiscal year 2015.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015.

Required Supplementary Information
Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

	TRF			
	2014	2015[2]	2016	2017
Statutorily Required Contribution as an:				
Employer[1]	$ 13,206	$ 14,542	$ 14,514	$ 14,885
Non-Employer Contributing Entity[1]	16,501	29,831	31,088	31,087
Total Statutorily Required Contribution	$ 29,707	$ 44,373	$ 45,602	$ 45,972
Covered-Member Payroll	$ 167,667	$ 166,870	$ 168,264	$ 174,717
Required Employer Contributions as a Percentage of Covered-Member Payroll	7.9%	8.7%	8.6%	8.5%

(1) Statutorily required contributions equal actual required contributions.
(2) TRF 2015: The required contribution rate for employers increased from 7.0% - 11.0% to 7.5% - 11.5%.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015.

Required Supplementary Information
Non-Primary Government Administered Multiple-Employer Cost Sharing Plans
Schedule of Contributions
(In Thousands)

	DTRF[2]		SPTRF			
	2014	2015	2014	2015[3]	2016[4]	2017[5]
Statutorily Required Contribution as an:						
Employer[1]	$ 55	$ 56	$ 109	$ 86	$ 64	$ 66
Non-Employer Contributing Entity[1]	6,555	6,346	10,665	9,827	10,665	10,665
Total Statutorily Required Contribution	$ 6,610	$ 6,402	$ 10,774	$ 9,913	$ 10,729	$ 10,731
Covered-Member Payroll	$ 729	760	$ 1,749	$ 628	$ 443	$ 446
Required Employer Contributions as a Percentage of Covered-Member Payroll	7.5%	7.4%	6.2%	13.7%	14.4%	14.8%

(1) Statutorily required contributions equal actual required contributions.
(2) DTRF merged with TRF in reporting fiscal year 2015.
(3) SPTRF 2015: The required contribution rate for employers increased from 5.25% - 8.75% to 5.50% - 9.00%.
(4) SPTRF 2016: The required contribution rate for employers increased to 6.00% - 9.50%.
(5) SPTRF 2017: The required contribution rate for employers increased to 6.25% - 9.75%.

Note: Data begins in fiscal year 2014, which is the measurement date used for the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015.

Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability
(In Thousands)

	SERF			CERF			GERF		
	2015	2016[1]	2017[2]	2015	2016[3]	2017[4]	2015	2016[5]	2017[6]
Primary Government's Proportion of the Net Pension Liability as an:									
Employer	73.38%	73.93%	73.88%	99.80%	99.86%	99.91%	0.70%	0.62%	0.72%
Non-Employer Contributing Entity	-	-	-	-	-	-	-	3.56%	1.29%
Total Primary Government's Proportion of the Net Pension Liability	73.38%	73.93%	73.88%	99.80%	99.86%	99.91%	0.70%	4.18%	2.01%
Primary Government's Proportionate Share of the Net Pension Liability as an:									
Employer	$ 1,189,902	$ 1,138,125	$ 9,160,172	$ 475,387	$ 653,352	$ 1,331,563	$ 33,103	$ 32,022	$ 58,119
Non-Employer Contributing Entity	-	-	-	-	-	-	-	184,478	104,677
Total Primary Government's Proportionate Share of the Net Pension Liability	$ 1,189,902	$ 1,138,125	$ 9,160,172	$ 475,387	$ 653,352	$ 1,331,563	$ 33,103	$ 216,500	$ 162,796
Primary Government's Covered-Member Payroll – Measurement Period	$ 1,923,040	$ 2,006,862	$ 2,066,651	$ 218,860	$ 231,126	$ 241,020	$ 37,715	$ 34,289	$ 41,328
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%	217.2%	282.7%	552.5%	87.8%	93.4%	140.6%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.6%	88.3%	47.5%	64.8%	58.1%	40.3%	78.7%	78.2%	68.9%

(1) SERF 2016: Benefit increase of 2.5% was projected to start in 2044 instead of 2016.
(2) SERF 2017: Benefit increase was changed to 2.0% for all future years. The discount rate was changed from 7.9% to 4.17%.
(3) CERF 2016: Benefit increase was projected to remain at 2.0% instead of increasing to 2.5% in 2016.
(4) CERF 2017: The discount rate changed from 6.25% to 4.24%.
(5) GERF 2016: Benefit increase of 2.5% was projected to start in 2036 instead of 2031.
(6) GERF 2017: Benefit increase changed to 1.0% for all future years. The discount rate changed from 7.9% to 7.5%.

Note: The state implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015 using the most recent actuarial report available of June 30, 2014.

Required Supplementary Information
Multiple-Employer Cost Sharing Plans
Schedule of the Proportionate Share of the Net Pension Liability
(In Thousands)

	MERF[1]	TRF			DTRF[4]	SPTRF		
	2015	2015	2016[2]	2017[3]	2015	2015	2016[5]	2017[6]
Primary Government's Proportion of the Net Pension Liability as an:								
Employer	-	4.13%	3.88%	3.72%	0.55%	0.31%	0.24%	0.17%
Non-Employer Contributing Entity	43.35%	5.17%	9.74%	7.97%	64.98%	30.34%	29.52%	28.79%
Total Primary Government's Proportion of the Net Pension Liability	43.35%	9.30%	13.62%	11.69%	65.53%	30.65%	29.76%	28.96%
Primary Government's Proportionate Share of the Net Pension Liability as an:								
Employer	$ -	$ 190,460	$ 239,701	$ 888,788	$ 1,401	$ 1,666	$ 1,385	$ 1,082
Non-Employer Contributing Entity	95,900	237,958	602,738	1,900,653	166,948	162,576	171,776	182,226
Total Primary Government's Proportionate Share of the Net Pension Liability	$ 95,900	$ 428,418	$ 842,439	$ 2,789,441	$ 168,349	$ 164,242	$ 173,161	$ 183,308
Primary Government's Covered-Member Payroll – Measurement Period	N/A	$ 167,667	$ 166,870	$ 168,264	$ 729	$ 1,749	$ 628	$ 443
Primary Government's Employers' Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Member Payroll	N/A	113.6%	143.6%	528.2%	192.2%	95.3%	220.5%	244.2%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.9%	81.5%	76.8%	44.9%	46.8%	66.1%	63.6%	60.3%

(1) MERF merged with GERF in reporting fiscal year 2015.
(2) TRF 2016: The discount rate changed from 8.25% to 8.00%.
(3) TRF 2017: A benefit increase is not projected to be attained instead of 2.5% in 2037. The discount rate changed from 8.0% to 4.66%
(4) DTRF merged with TRF in reporting fiscal year 2015.
(5) SPTRF 2016: Benefit increase if the plan is at least 90% funded was up to 2.5% instead of up to 5.0%.
(6) SPTRF 2017: Benefit increase of 2.0% is projected to start in 2055 and 2.5% in 2066 instead of 2041 and 2051, respectively.

Note: The state implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015 using the most recent actuarial report available of June 30, 2014.

Required Supplementary Information
Primary Government Administered Single-Employer Plan
Judges Retirement Fund (JRF)
Schedule of Contributions
(In Thousands)

	2008	2009	2010	2011	2012	2013	2014[2]	2015	2016	2017
Statutorily Required Contribution[1]	$ 7,935	$ 8,219	$ 8,283	$ 8,297	$ 7,922	$ 8,177	$ 9,426	$ 9,776	$ 10,219	$ 13,759
Covered-Member Payroll	$ 38,296	$ 39,444	$ 39,291	$ 40,473	$ 38,644	$ 39,888	$ 41,893	$ 43,449	$45,418	$ 45,838
Contributions as a Percentage of Covered-Member Payroll	20.7%	20.8%	21.1%	20.5%	20.5%	20.5%	22.5%	22.5%	22.5%	30.0%

(1) Statutorily required contributions equal actual required contributions.
(2) 2014: The required employer contribution rate changed from 20.5% to 22.5%

Required Supplementary Information
Primary Government Administered Single-Employer Plan
Legislators Retirement Fund (LRF)
Schedule of Contributions
(In Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Statutorily Required Contribution[1]	$ 2,217	$ 1,269	$ 1,975	$ 2,805	$ 3,935	$ 3,399	$ 3,436	$ 3,216	$ 5,087	$ 8,716
Covered-Member Payroll	$ 1,993	$ 1,963	$ 1,877	$ 1,774	$ 1,378	$ 1,233	$ 1,122	$ 1,700	$ 989	$ 889
Contributions as a Percentage of Covered-Member Payroll	111.2%	64.6%	105.2%	158.1%	285.6%	275.7%	306.2%	189.2%	514.4%	980.4%

(1) Statutorily required contributions equal actual required contributions. Employer contributions are on a pay-as-you-go basis.

Required Supplementary Information
Primary Government Administered Single-Employer Plan
State Patrol Retirement Fund (SPRF)
Schedule of Contributions
(In Thousands)

	2008[2]	2009[3]	2010[4]	2011	2012[5]	2013	2014	2015[6]	2016	2017[7]
Statutorily Required Contribution[1]	$ 8,279	$ 9,178	$ 10,104	$ 9,873	$ 11,620	$ 11,482	$ 12,894	$ 13,763	$ 13,938	$ 15,783
Covered-Member Payroll	$ 60,029	$ 61,511	$ 63,250	$ 63,250	$ 62,524	$ 62,121	$ 63,952	$ 68,463	$ 69,343	$ 72,738
Contributions as a Percentage of Covered-Member Payroll	13.8%	14.9%	16.0%	15.6%	18.6%	18.5%	20.2%	20.1%	20.1%	21.7%

(1) Statutorily required contributions equal actual required contributions.
(2) 2008: The required employer contribution rate changed from 12.6% to 13.6%
(3) 2009: The required employer contribution rate changed to 14.6%
(4) 2010: The required employer contribution rate changed to 15.6%
(5) 2012: The required employer contribution rate changed to 18.6%
(6) 2015: The required employer contribution rate changed to 20.1%
(7) 2017: The required employer contribution rate changed to 21.6%

Required Supplementary Information
Primary Government Administered Single-Employer Plans
Schedule of Changes in the Net Pension Liability
and Related Ratios
(In Thousands)

	JRF			LRF			SPRF		
	2015	2016[1]	2017[2]	2015	2016[3]	2017[4]	2015	2016[5]	2017[6]
Total Pension Liability									
Service Cost	$ 12,075	$ 12,251	$ 13,711	$ 398	$ 428	$ 495	$ 14,514	$ 16,144	$ 16,555
Interest on the Total Pension Liability	20,535	21,773	21,349	6,177	6,113	5,332	60,183	63,753	64,592
Difference Between Expected and Actual Experience of the Total Pension Liability	5,080	(4,366)	7,135	(237)	(7,303)	(1,597)	(5,771)	(12,855)	(22,222)
Changes in Assumptions	(8,416)	21,696	(85,756)	11,201	7,057	14,653	30,058	-	283,584
Benefit Payments, Including Refunds of Member Contributions	(20,802)	(21,893)	(22,378)	(8,486)	(8,441)	(8,536)	(53,722)	(55,480)	(57,774)
Net Change in Total Pension Liability	$ 8,472	$ 29,461	$ (65,939)	$ 9,053	$ (2,146)	$ 10,347	$ 45,262	$ 11,562	$ 284,735
Total Pension Liability – Beginning	$ 373,039	$ 381,511	$ 410,972	$ 137,446	$ 146,499	$ 144,353	$ 781,411	$ 826,673	$ 838,235
Total Pension Liability – Ending	$ 381,511	$ 410,972	$ 345,033	$ 146,499	$ 144,353	$ 154,700	$ 826,673	$ 838,235	$ 1,122,970
Fiduciary Net Position									
Contributions – Employer	$ 9,426	$ 9,776	$ 10,219	$ 3,436	$ 3,216	$ 5,087	$ 12,894	$ 14,763	$ 14,938
Contributions – Member	3,578	3,629	3,763	101	153	89	7,930	9,174	9,292
Net Investment Income	28,011	7,572	(186)	1,750	281	(69)	107,187	28,903	(774)
Benefit Payments, Including Refunds of Member Contributions	(20,802)	(21,893)	(22,378)	(8,486)	(8,441)	(8,536)	(53,722)	(55,480)	(57,774)
Pension Plan Administrative Expenses	(55)	(60)	(94)	(36)	(37)	(42)	(150)	(170)	(220)
Other Changes	-	-	-	-	-	41	-	-	-
Net Change in Plan Fiduciary Net Position	$ 20,158	$ (976)	$ (8,676)	$ (3,235)	$ (4,828)	$ (3,430)	$ 74,139	$ (2,810)	$ (34,538)
Plan Fiduciary Net Position – Beginning as Restated	$ 155,398	$ 175,556	$ 174,580	$ 11,493	$ 8,258	$ 3,430	$ 593,201	$ 667,340	$ 664,530
Plan Fiduciary Net Position – Ending	$ 175,556	$ 174,580	$ 165,904	$ 8,258	$ 3,430	$ -	$ 667,340	$ 664,530	$ 629,992
Net Pension Liability	$ 205,955	$ 236,392	$ 179,129	$ 138,241	$ 140,923	$ 154,700	$ 159,333	$ 173,705	$ 492,978
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	46.0%	42.5%	48.1%	5.6%	2.4%	0.0%	80.7%	79.3%	56.1%
Covered-Member Payroll – measurement period	$ 41,893	$ 43,449	$ 45,418	$ 1,122	$ 1,700	$ 989	$ 63,952	$ 68,463	$ 69,343
Net Pension Liability as a Percentage of Covered-Member Payroll	491.6%	544.1%	394.4%	12,320.9%	8,289.6%	15,642.1%	249.1%	253.7%	710.9%

(1) JRF 2016: The discount rate changed from 5.78% to 5.25%.
(2) JRF 2017: The discount rate changed to 7.50%. Benefit increase of 1.75% was projected for all future years changed to 1.75% through 2041, 2.0% from 2042 through 2054, and 2.5% thereafter.
(3) LRF 2016: The discount rate changed from 4.29% to 3.80%. Benefit increase of 2.5% was projected to start in 2044 instead of 2015.
(4) LRF 2017: The discount rate changed to 2.85%. Benefit increase changed to 2.0% for all future years.
(5) SPRF 2016: Benefit increase of 1.0% was projected to start in 2031 instead of 2018, 1.5% through 2052 instead of 2045 and 2.5% thereafter.
(6) SPRF 2017: The discount rate changed from 7.9% to 5.31%. Benefit increase changed to 1.0% for all future years.

Note: The state implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015 using the most recent actuarial report available of June 30, 2014.

Actuarial Measures of Other Postemployment Benefits Funding Progress

The state of Minnesota offers other postemployment benefits to state employees and their dependents through a single-employer defined benefit health care plan.

Required Supplementary Information
Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date		7/1/2016 [1]
		7/1/2014
		7/1/2012
Actuarial Value of Plan Assets	7/1/2016	$ -
	7/1/2014	$ -
	7/1/2012	$ -
Actuarial Accrued Liability	7/1/2016	$ 616,648
	7/1/2014	$ 666,638
	7/1/2012	$ 651,890
Total Unfunded Actuarial Liability	7/1/2016	$ 616,648
	7/1/2014	$ 666,638
	7/1/2012	$ 651,890
Funded Ratio[2]	7/1/2016	0%
	7/1/2014	0%
	7/1/2012	0%
Annual Covered Payroll	7/1/2016	$ 3,619,205
	7/1/2014	$ 3,243,316
	7/1/2012	$ 2,819,463
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2016	17%
	7/1/2014	21%
	7/1/2012	23%

(1) The July 1, 2016, Actuarial Valuation Report is the most recently issued report available. The Actuarial Valuation Report is prepared every two years.

(2) Actuarial value of assets as a percent of actuarial accrued liability.

Public Employees Insurance Program Development Information

The Public Employees Insurance Program's medical claim is a self-funded program. The following table illustrates how the fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the past ten years (in thousands).

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Required Contribution and Investment Revenue:										
Earned	$ 13,439	$ 12,286	$ 25,031	$ 34,161	$ 45,413	$ 49,244	$ 90,110	$ 96,008	$109,484	$120,780
Ceded	(1,298)	(1,218)	(2,684)	(2,660)	(3,502)	(4,582)	(8,372)	(4,607)	-	-
Net Earned	$ 12,141	$ 11,068	$ 22,347	$ 31,501	$ 41,911	$ 44,662	$ 81,738	$ 91,401	$109,484	$120,780
2. Unallocated Expenses:	$ 1,505	$ 1,534	$ 2,037	$ 2,411	$ 3,018	$ 3,612	$ 6,390	$ 7,435	$ 7,846	$ 8,518
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	$ 10,748	$ 9,473	$ 19,350	$ 24,134	$ 38,173	$ 41,959	$ 73,795	$ 86,276	$ 97,089	$ 99,399
Ceded	(380)	(667)	(562)	(1,491)	(2,149)	(4,909)	(5,767)	(7,571)	-	-
Net Incurred	$ 10,368	$ 8,806	$ 18,788	$ 22,643	$ 36,024	$ 37,050	$ 68,028	$ 78,705	$ 97,089	$ 99,399
4. Net Paid (Cumulative) as of:										
End of Policy Year	$ 9,403	$ 7,921	$ 16,848	$ 20,720	$ 32,176	$ 33,836	$ 60,813	$ 70,741	$ 87,378	$ 90,091
One Year Later	10,415	8,482	18,828	23,219	35,718	37,353	68,176	79,461	$ 96,681	
Two Years Later	10,413	8,454	18,826	23,200	35,946	37,608	68,256	79,762		
Three Years Later	10,413	8,454	18,826	23,303	35,986	37,629	68,391			
Four Years Later	10,413	8,454	18,826	23,303	35,986	37,629				
Five Years Later	10,413	8,454	18,826	23,303	35,986					
Six Years Later	10,413	8,454	18,826	23,303						
Seven Years Later	10,413	8,454	18,826							
Eight Years Later	10,413	8,454								
Nine Years Later	10,413									
5. Reestimated Ceded Claims and Expenses:										
	$ 380	$ 667	$ 562	$ 1,491	$ 2,149	$ 4,909	$ 5,767	$ 7,515	$ -	$ -
6. Reestimated Net Incurred Claims and Expenses:										
End of Policy Year	$ 10,368	$ 8,806	$ 18,788	$ 22,643	$ 36,024	$ 37,050	$ 68,028	$ 78,705	$ 97,089	$ 99,399
One Year Later	10,425	8,502	18,848	23,249	36,006	37,673	68,588	80,027	$ 97,415	
Two Years Later	10,413	8,454	18,826	23,304	35,946	37,608	68,408	79,981		
Three Years Later	10,413	8,454	18,826	23,303	35,986	37,629	68,391			
Four Years Later	10,413	8,454	18,826	23,303	35,986	37,629				
Five Years Later	10,413	8,454	18,826	23,303	35,986					
Six Years Later	10,413	8,454	18,826	23,303						
Seven Years Later	10,413	8,454	18,826							
Eight Years Later	10,413	8,454								
Nine Years Later	10,413									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year:										
	$ 45	$ (352)	$ 38	$ 660	$ (38)	$ 579	$ 363	$ 1,276	$ 326	$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.
3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally estimated. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

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 August 7, 2018, 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 2018 (each a "Reporting Date"):

(A) The Comprehensive Annual 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.

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

FORMS OF LEGAL OPINION

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August 21, 2018

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $397,720,000 General Obligation State Various Purpose Bonds, Series 2018A
State of Minnesota

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 the issuance of $397,720,000 General Obligation State Various Purpose Bonds, Series 2018A, dated August 21, 2018 (the "Series 2018A Bonds"). The Series 2018A Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. 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 2018A Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

2. Interest on the Series 2018A 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 or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax for taxable years beginning prior to January 1, 2018.

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 2018A 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 2018A Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2018A Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2018A 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 2018A Bonds. No provision has been made for an increase in the interest payable on the Series 2018A 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 2018A Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

August 21, 2018

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B
State of Minnesota

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 the issuance of $206,000,000 General Obligation State Trunk Highway Bonds, Series 2018B, dated August 21, 2018 (the "Series 2018B Bonds"). The Series 2018B Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue. 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 2018B Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State.

2. The principal of and interest on the Series 2018B Bonds are payable from revenues of the State Trunk Highway Fund; but, if necessary for the payment thereof, the full faith and credit of the State are pledged, and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

3. Interest on the Series 2018B 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 or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax for taxable years beginning prior to January 1, 2018.

The opinions expressed in paragraph 3 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 2018B 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 2018B Bonds, with covenants made by the Commissioner of Management and Budget in the Order authorizing the issuance of the Series 2018B Bonds relating to certain continuing requirements of the Code, may result in inclusion of interest to be paid on the Series 2018B 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 2018B Bonds. No provision has been made for an increase in the interest payable on the Series 2018B 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 2018B Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

August 21, 2018

The Honorable Myron Frans
Commissioner of Management and Budget
658 Cedar Street
400 Centennial Office Building
Saint Paul, Minnesota 55155

Re: $16,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2018C
State of Minnesota

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 the issuance of $16,000,000 General Obligation Taxable State Various Purpose Bonds, Series 2018C, dated August 21, 2018 (the "Series 2018C Bonds"). The Series 2018C Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the constitution and laws of the State. We have also examined the constitution and statutes of the State and the form of bond prepared for this issue.

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 the Series 2018C Bonds have been authorized and issued in accordance with the constitution and laws of the State and constitute valid and binding general obligations of the State, for the payment of which, with interest thereon, the full faith and credit of the State are pledged; and the State has provided for the levy of ad valorem taxes on all taxable property therein to make such payment when due, without limitation as to rate or amount, except to the extent that moneys appropriated for this purpose are received in the State Bond Fund prior to the date when such levy is required to be made.

The interest on the Series 2018C Bonds is includable in gross income for federal income tax purposes, in taxable net income of individuals, trusts and estates for Minnesota income tax purposes and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. We express no other opinion regarding federal, state or other tax consequences to holders of the Series 2018C Bonds.

Very truly yours,

[To be signed and delivered at Closing by Kutak Rock LLP]

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STATE OF MINNESOTA • General Obligation State Bonds

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