



Office Memorandum

Date: December 5, 2013

To: Legislative Reference Library

From: Jim Schowalter 
Commissioner

Subject: Report to the Legislature - Debt Capacity Report

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

Attached is the November 2013 debt capacity report.

Attachment

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

Minnesota Management and Budget Debt Capacity Forecast November 2013

Introduction

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

On December 22, 2009, MMB adopted new Capital Investment Guidelines. These guidelines are intended to:

- Be consistent with measures used by the credit rating agencies and foster direct comparisons with the debt burdens of other states;
- Be comprehensive to ensure all kinds of tax-supported debt obligations are recognized; and
- Continue Minnesota’s conservative financial management practices.

The capital investment guidelines are:

1. Total tax-supported principal outstanding shall be 3.25% or less of total state personal income.
2. Total amount of principal (both issued, and authorized but unissued) for state general obligations, state moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6% of state personal income.
3. 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and/or market conditions.

Statement of Indebtedness

As of November 30, 2013, the state of Minnesota had \$6,260,830,000 principal amount of general obligation bonds outstanding (consisting of both various purpose and trunk highway bonds), as well as \$1,168,865,000 principal amount of other tax-supported obligations outstanding, for a total of \$7,429,695,000 outstanding as of the date of the forecast. Please see the attached exhibit for more detail about these obligations.

The state has no general obligation short-term notes outstanding.

Debt Service Costs

The table below presents the details of the actual and forecasted debt service costs for all of the state's tax-supported debt. For the forecast, the assumption for future capital budgets is \$775 million in the even numbered legislative sessions and \$220 million in the odd numbered years with respect to various purpose general obligation bonds. For trunk highway bonds, the forecast amounts have been prepared based upon information provided by the Department of Transportation. The column entitled "Other Tax-Supported Bonds" reflects the actual debt service obligations in each fiscal year for the debt identified in the exhibit; it does not reflect the total amount appropriated in each fiscal year for such obligations. The estimate for interest rates used for future bond issues is derived from the Global Insight Inc. ("GII") data used to develop the November 2013 revenue forecast.

Actual Annual Debt Service Costs (\$ in Thousands)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>			<u>Other Tax Supported Bonds</u>	<u>Total</u>
	<u>Various Purpose</u>	<u>Trunk Highway Fund</u>	<u>Subtotal</u>		
2010 actual	\$429,123	\$70,542	\$499,665	\$27,640	\$527,305
2011 actual	\$398,799	\$45,225	\$444,024	\$30,393	\$474,417
2012 actual	\$190,799	\$72,601	\$263,400	\$38,194	\$301,594
2013 actual	\$222,584	\$120,305	\$342,889	\$49,236	\$392,125
2014 forecast	\$619,935	\$136,488	\$756,423	\$43,962	\$800,385
2015 forecast	\$632,143	\$186,512	\$818,655	\$51,561	\$870,216
2016 forecast	\$621,295	\$213,705	\$835,000	\$50,383	\$885,383
2017 forecast	\$646,014	\$228,811	\$874,825	\$50,362	\$925,187
2018 forecast	\$604,390	\$222,182	\$826,572	\$50,321	\$876,893
2019 forecast	\$634,132	\$223,904	\$858,036	\$50,293	\$908,329

**Totals may not add due to rounding.*

Debt Authorized and Unissued

The state has authorized and unissued general obligation bonds for various purposes and trunk highway purposes totaling \$1,565,751,700 as of November 30, 2013. In addition, the legislature has authorized an additional \$19,720,000 of debt to be issued for biosciences facilities by the University of Minnesota. However, the University of Minnesota has advised MMB that these bonds will not be issued and the bond authorization can be cancelled. The legislature authorized \$30 million to finance the MHFA Housing Infrastructure Bonding program, of which \$15.46 million were issued August 2013. The legislature has also authorized the sale of state appropriation bonds with an assumed project size of \$498 million to finance the Professional Football Stadium Bonds. The size of the bond issues will be slightly higher to include estimated financing costs such as the Cost of Issuance, Capitalized Interest and

Underwriter's Discount. Of the assumed project size of \$498 million, \$348 million is the state's share and \$150 million is for the city of Minneapolis' share. The assumed future bond sales have been prorated at the same levels. Additional recent bond authorizations of state appropriation bonds include \$10 million to finance the pay for performance bond program. None of the debt for this program has been issued. The total amount of authorized and unissued tax-supported obligations is \$2,109,691,200. The legislature also authorized the Commissioner of MMB to issue lease revenue bonds or certificates of participation to finance a Legislative Office Facility. The project and debt authorization are contingent on the pending approvals of legislative committees. When final plans are approved, the debt authorization for this will be included in the total for tax supported debt.

Debt Capacity

The capital investment guidelines are intended to be a current fiscal year "point in time" calculation that minimizes the number of variables that needed to be addressed in the prior debt capacity calculations. Total state personal income is derived from the GII data used to develop the November 2013 revenue forecast and reflects the state 2014 fiscal year (not the 2013 calendar year).

Capacity Calculations as of November 2013 Forecast:

Guideline #1- Goal 3.25% or less:

Tax-supported principal outstanding	\$7.430 billion
FY 2014 state personal income estimate – GII forecast	\$266.765 billion
As a percent of state personal income, not to exceed 3.25%	2.79%
Estimated maximum additional principal capacity for all tax-supported debt	\$1.240 billion

Guideline #2 - Goal 6.00% or less:

Total principal outstanding (issued, and authorized but unissued)	\$11.418 billion
FY 2014 state personal income estimate – GII forecast	\$266.765 billion
As a percent of state personal income, not to exceed 6.0%	4.28%
Estimated maximum additional principal capacity for all obligations	\$4.588 billion

Guideline #3 - Goal no less than 40% of general obligation debt to mature within five years and 70% within ten years:

Of the State's general obligation bonds outstanding on June 30, 2013, 39.4 percent were scheduled to mature within five years and 70.6 percent were scheduled to mature with ten years. Furthermore, of the State's general obligation bonds expected to be outstanding on June 30, 2014, 40.5 percent are scheduled to mature within five years and 70.9 percent are scheduled to mature with ten years.

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

The Tobacco Settlement Revenue Bonds did not count toward any of the state's Capital Investment Guidelines as the bonds were issued by the Tobacco Securitization Authority ("TSA"), a body corporate and politic and public instrumentality which has a legal existence independent and separate from the state. The bond proceeds from the Tobacco Settlement Revenue Bonds were used to pay off current biennial payments for principal and interest on the state's general obligation bonds. This transaction resulted in a reduction of principal payments made by the state and thereby reducing the amount applicable to the calculation of Capital Investment Guideline No. 3 which states that 40% of general obligation debt shall be due within five years and 70% within ten years. Prior to the issuance of the Tobacco Settlement Revenue Bonds, the State expected that of the bonds to be outstanding on June 30, 2012, 40.0 percent were scheduled to mature within five years and 70.1 percent were scheduled to mature with ten years. However, as stated above, with the issuance of the Tobacco Settlement Revenue Bonds, the percentages were 39.4 percent and 70.6 percent, respectively.

Capital Investment Guidelines
Summary of Outstanding Principal as of 11/30/2013
As of November, 2013 Economic Forecast

Tax-Supported Debt (Guideline #1)	Principal Outstanding	Authorized, Unissued	Total
All State General Obligation Debt	6,260,830,000	1,565,751,200	7,826,581,200
Certificates of Participation (SWIFT/Integrated Tax)	45,815,000	0	45,815,000
BCA Bemidji Lease Revenue Bonds	4,795,000	0	4,795,000
Other Real Estate Capital Leases:			
Ag/Health Buildings	52,900,000	0	52,900,000
DHS Building	62,860,000	0	62,860,000
MHFA Supportive Housing	29,680,000	0	29,680,000
MHFA Housing Infrastructure	15,460,000	14,540,000	30,000,000
U of M:			
TCF Bank Stadium	109,300,000	0	109,300,000
Biosciences Facilities	191,835,000	19,720,000	211,555,000
State General Fund Appropriation Refunding Bonds	656,220,000	0	656,220,000
Professional Football Stadium Appropriation Bonds ⁽¹⁾ - State Share	0	349,173,976	349,173,976
Professional Football Stadium Appropriation Bonds ⁽¹⁾ - Minneapolis Share	0	150,506,024	150,506,024
Pay for Performance Appropriation Bonds	0	10,000,000	10,000,000
TOTAL - Tax-Supported Debt ⁽²⁾	7,429,695,000	2,109,691,200	9,539,386,200

Other Obligations (Guideline #2)

Tax-Supported Debt (issued and authorized but unissued)			9,539,386,200
MHFA Moral Obligation Debt ⁽³⁾			1,294,960,000
MOHE Moral Obligation Debt			551,360,000
Equipment Leases			32,186,802
TOTAL - All Obligations			11,417,893,002

FY 2014 State Personal Income Estimate - GII Forecast:	266,765,000,000
State Tax-Supported Debt as a Percent of Personal Income:	2.79%
Estimated maximum additional principal capacity for all tax-supported debt @ 3.25%	1,240,167,500

All Obligations as a Percent of Personal Income:	4.28%
Estimated maximum additional principal capacity for all obligations @ 6.0%	4,588,006,998

⁽¹⁾ The assumed project size is \$498 million but the size of the bond issues will include estimated financing costs such as the Cost of Issuance, Capitalized Interest, Underwriter's Discount and/or Debt Service Reserve.

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

⁽³⁾ MHFA has a total of \$5 billion of debt authorized; however, they have gone to a new indenture structure which will not use the moral obligation pledge. Consequently, this authorized but unissued amount is not included here.