

# **Presentation to the Stadium Committee**

**Prepared by the Minnesota Department of Finance  
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## **Bond**

A written promise to pay a specific sum of money, the principal amount, at a specific date or dates in the future, called the maturity dates, together with periodic interest at a specific rate.

## **Debt Service**

The amount of money necessary to pay interest and principal requirements for a given year.

## **Tax Exempt Bonds – Taxable Bonds**

Federal tax law regulates the issuance of tax-exempt bonds. Not all projects built by state and local governments are eligible for tax – exempt bond financing.

### **Stadiums** (in general)

Bonds issued for stadiums must not constitute private activity bonds. There are two tests to determine if a bond is a private activity bond.

- The private business use test.
- The private payment test.

If both tests are met, the bonds are private activity bonds and cannot be sold as tax-exempt bonds. The bonds can be sold as taxable bonds.

## **General Obligation Bonds**

Bonds for the payment of which the full faith and credit of the issuing government is pledged. This means that a tax is levied to pay the principal and interest on the bonds.

## **Revenue Bonds**

The term is used today to refer to any bond that is not a general obligation bond. Usually, there is revenue source that is created as a result of a project or an investment. The revenue is used to pay the principal and interest on the bonds.

There is no tax levied to pay the principal and interest on the bonds.

## **Credit Ratings**

Credit Ratings are credit quality evaluations of bonds made by independent credit rating agencies. The major credit rating agencies are Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors.

Higher ratings mean higher quality and lower risk to the investor. The higher the rating the lower the interest rate on the bonds.

Moody's rates bonds from Aaa to C.

Bonds that are rated Aaa to Baa are considered investment grade bonds.

Bonds rated below Baa are considered non-investment grade or junk bonds.

## Moody's Definitions

Bonds that are rated **Aaa** are judged to be the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Bonds that are rated **Baa** are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Bonds that are rated **Ba** are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

Bonds that are rated **C** are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

## **Credit Enhancements**

The credit quality of bonds can be improved by several methods.

- Bond Reserves
- Bond Insurance
- A Letter of Credit
- Pledging Additional Sources of Revenue