



# State Debt and Federal Funding Update Senate Finance Committee

February 17, 2022



# State Debt Overview

Jennifer Hassemer | Assistant Commissioner

# Statement of Indebtedness

- Debt Capacity Report published according to Minn. Stat. 16A.105
  - Statement of indebtedness
  - Debt service costs
  - Borrowing capacity

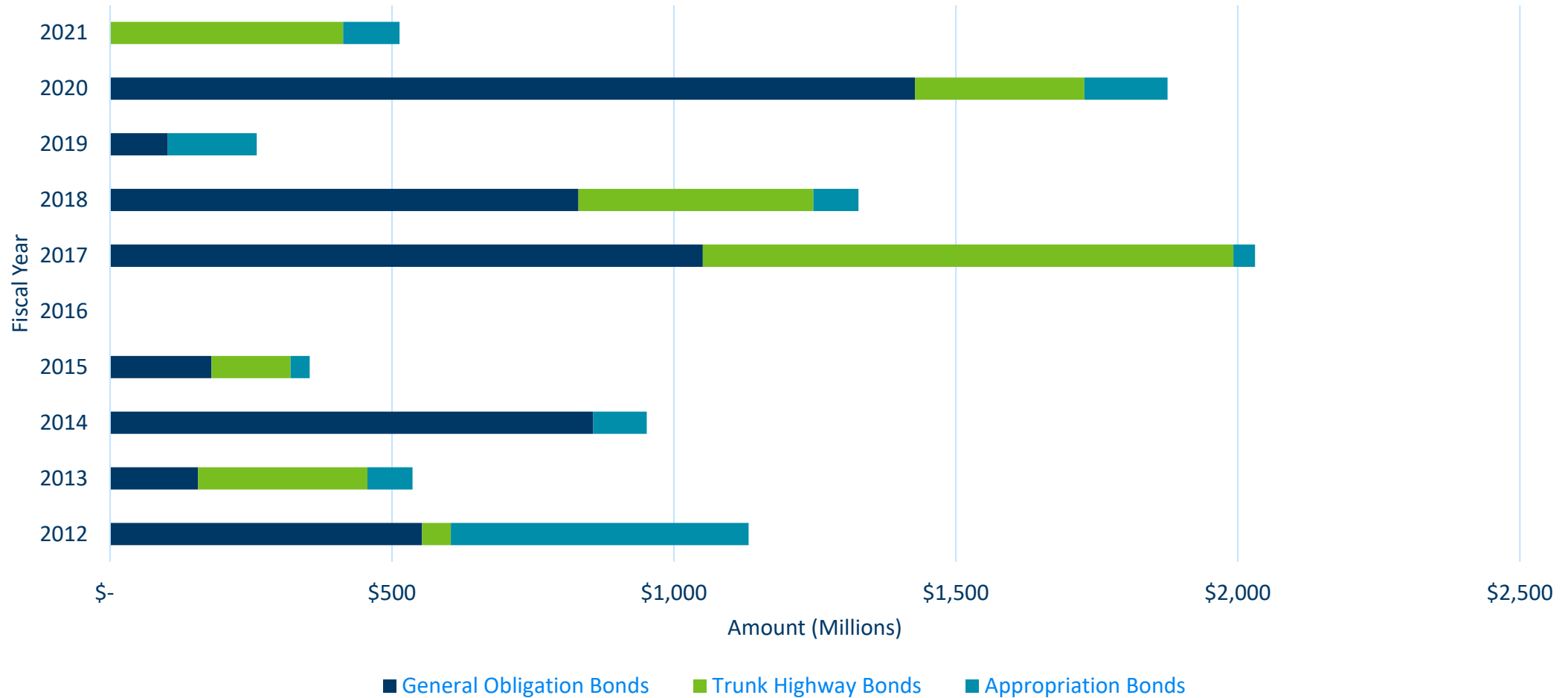
	<b>Principal Outstanding</b>	<b>Authorized, Unissued</b>
General Obligation Bonds	\$4,389,625,000	\$1,166,097,482
Trunk Highway Bonds	\$2,214,245,000	\$1,444,335,218
Annual Appropriation Debt	\$1,571,815,000	\$183,110,000
Total	\$8,184,685,000	\$2,793,542,700

# Debt Service Costs

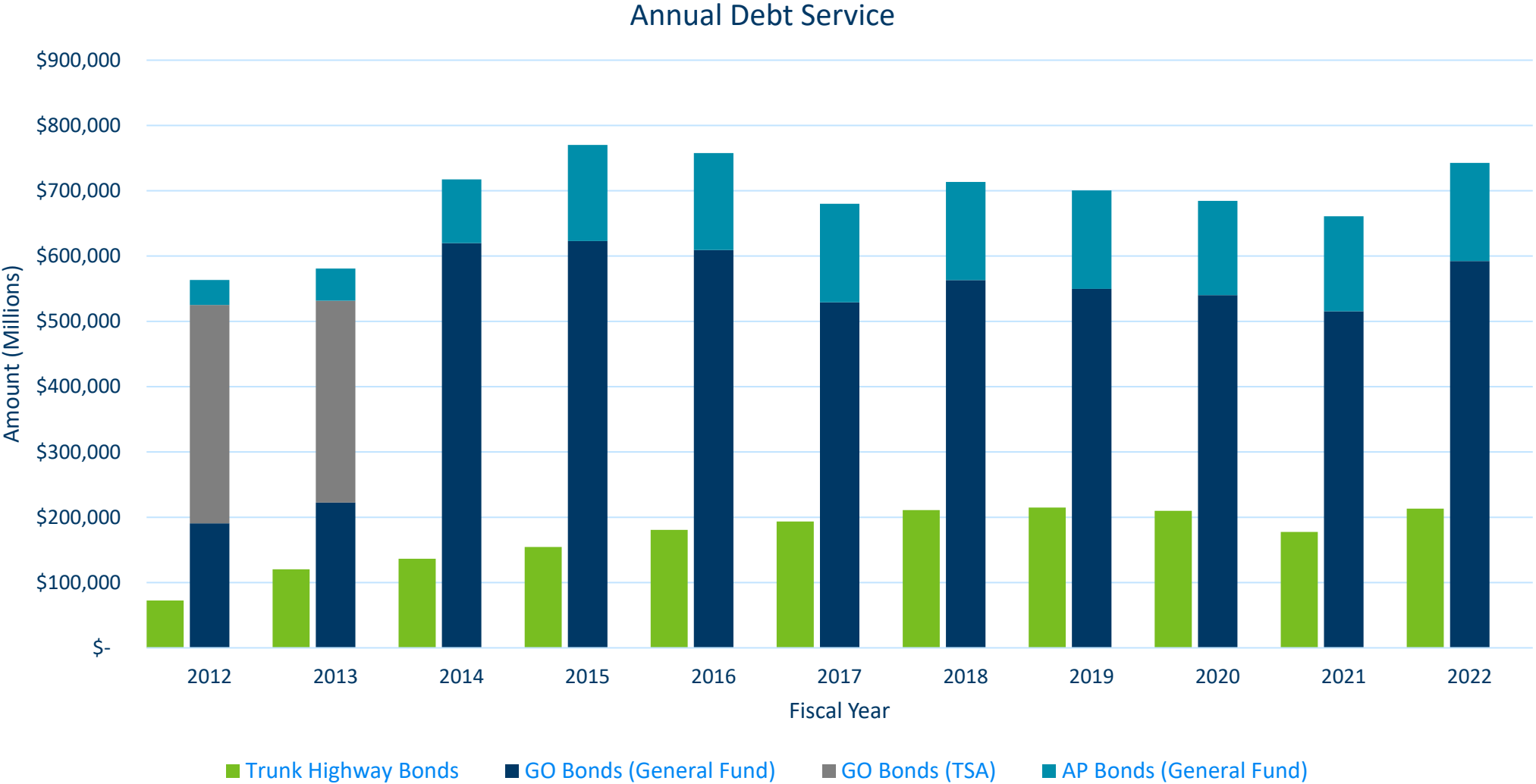
- Debt service cost reflects both actual and forecasted debt service levels
  - Actual based on debt already sold
  - Forecasted includes future debt service from (1) authorized but unissued debt and (2) assumed future bonding bills
- Budget uses a rolling 10-year historic average to forecast future bonding bills
  - Even years: \$880 million
  - Odd years: \$135 million

# Historic Debt Authorizations

Historic Debt Authorizations



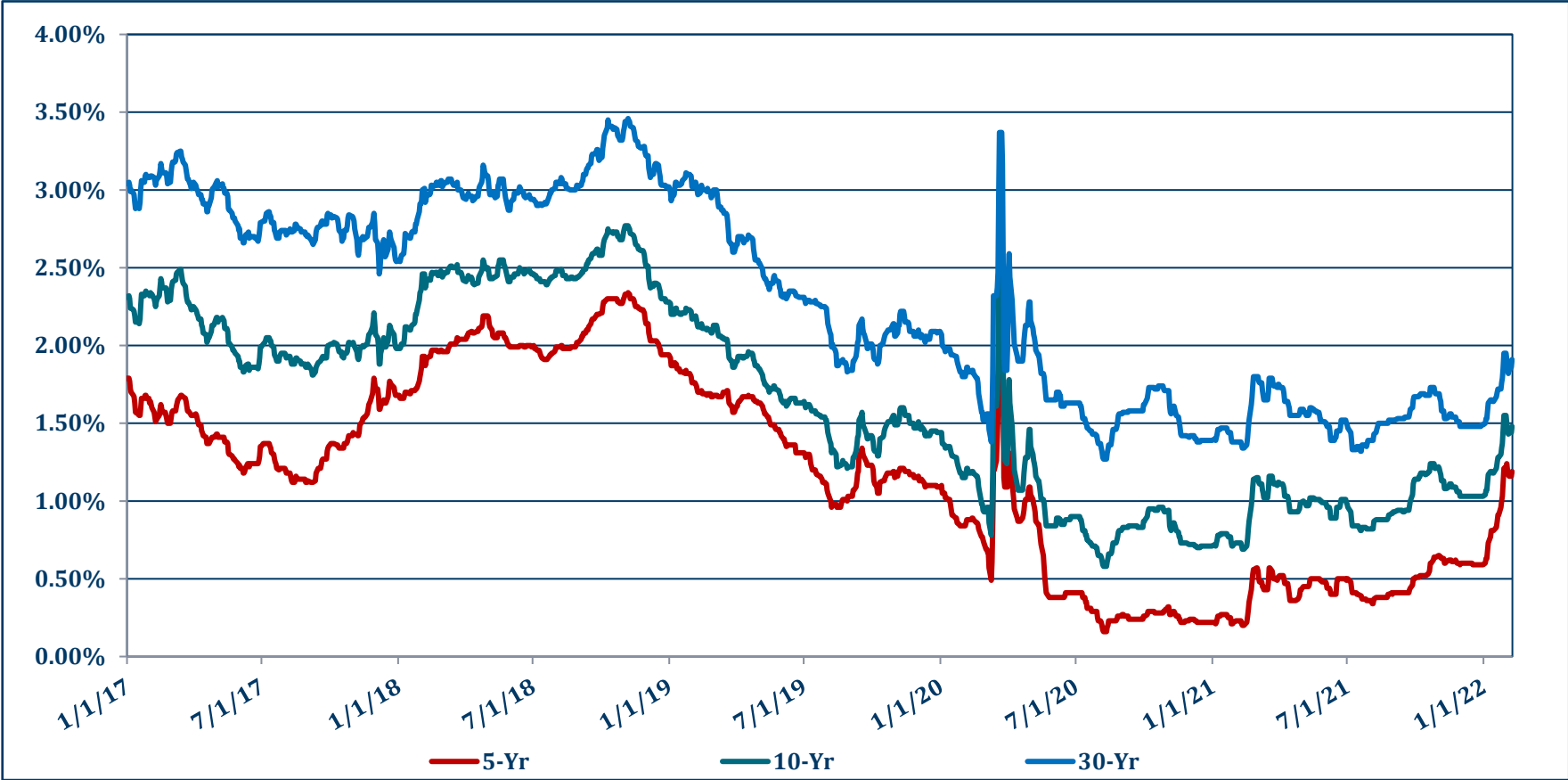
# Annual Debt Service



# Recent Bond Sales

# Municipal Bond Market

5-, 10- and 30-Yr MMD Rates (January 1, 2017 – February 8, 2022)



Source: Public Resources Advisory Group



# August 2020 General Obligation Bond Sale

- Sold 7 series of G.O. bonds
- \$502.9 million were for new or ongoing projects
  - Interest rates ranged from 1.256% to 1.596%
- \$695.7 million refinanced outstanding bonds achieving significant interest rate savings
  - Saved general fund \$47.5 million
  - Saved trunk highway fund \$57.5 million

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 2020A Bonds, Series 2020B Bonds, Series 2020D Bonds, and Series 2020E 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. The interest to be paid on the Series 2020C Bonds, Series 2020F Bonds, and Series 2020G Bonds (collectively, the "Taxable 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.*



**\$1,198,550,000**

**STATE OF MINNESOTA**  
**General Obligation State Bonds**  
consisting of:

\$330,360,000 General Obligation State Various Purpose Bonds, Series 2020A  
\$152,020,000 General Obligation State Trunk Highway Bonds, Series 2020B  
\$20,515,000 General Obligation Taxable State Various Purpose Bonds, Series 2020C  
\$128,115,000 General Obligation State Various Purpose Refunding Bonds, Series 2020D  
\$163,380,000 General Obligation State Trunk Highway Refunding Bonds, Series 2020E  
\$223,970,000 General Obligation Taxable State Various Purpose Refunding Bonds, Series 2020F  
\$180,190,000 General Obligation Taxable State Trunk Highway Refunding Bonds, Series 2020G

(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.

# September 2021 General Obligation Bond Sale

## 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 2021A Bonds and Series 2021B Bonds (collectively, the "Bonds") is excludable from gross income for federal income tax purposes and from taxable net income of individuals, estates or trusts for Minnesota income tax purposes; is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; and is not a specific tax preference item for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. For a discussion of tax matters see "TAX MATTERS" herein.*



**\$876,150,000**

**STATE OF MINNESOTA**  
**General Obligation State Bonds**  
consisting of:

**\$565,150,000 General Obligation State Various Purpose Bonds, Series 2021A**

**\$311,000,000 General Obligation State Trunk Highway Bonds, Series 2021B**

*(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.**

- Sold 2 series of G.O. bonds
- All proceeds are for new or ongoing projects
  - Interest rates ranged from 1.49% to 1.71%

# Future Debt Issuance Plans

- State General Obligation Bonds – typically early August
- General Fund-Backed Appropriation Bonds – typically after GO bond sale and by end of October
  - State Appropriation Bonds
  - MHFA Housing Infrastructure Bonds

# Refunding Opportunities

- Callable bonds can be redeemed prior to their maturity date and can generate economic savings
  - Savings are generally spread evenly over the remaining years
  - Savings can also be taken up-front
- Refunding criteria usually based on achieving a certain level of savings
- Authorizing legislation has historically included authority to refund bonds

# Capital Investment Guidelines

# Purpose of Minnesota's Capital Investment Guidelines

- Why have guidelines?
  - Guide decision making
  - Communicate policy goals
  - Demonstrate commitment to long-term capital and financial planning
- Why these guidelines?
  - Consistent with other states and rating agency review
  - Inclusive of all debt obligations
  - Represent Minnesota's strong financial management

# Types of Debt Measured in Guidelines

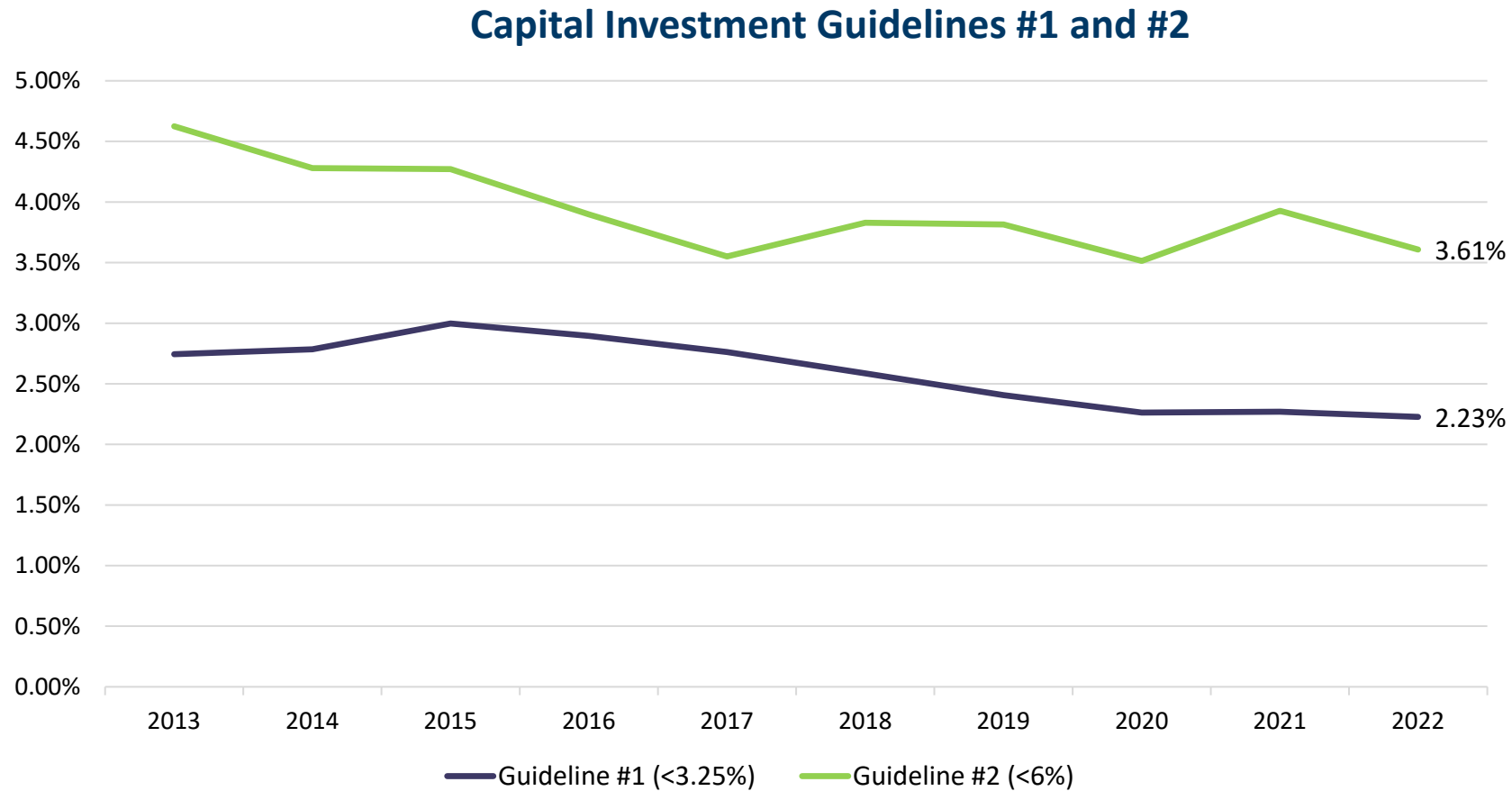
- General obligation bonds (various purpose and trunk highway)
- State appropriation bonds
- Agency bonds, payable from standing appropriations
- Lease-purchase financing for real estate
- Lease-purchase financing for equipment
- Moral obligation debt

# Capital Investment Guidelines

- **Guideline #1:** Total tax-supported principal outstanding (sold) shall be 3.25% or less of total state personal income.  
November 2021: 2.23%
- **Guideline #2:** Total amount of tax-supported principal (both issued, and authorized but unissued) shall be 6.0% or less of total state personal income.  
November 2021 : 3.61%
- **Guideline #3:** No less than 40% of G.O. bonds scheduled to mature within five years and 70% of G.O. bonds scheduled to mature within 10 years  
November 2021 : 42.2% / 74.3%



# Historic Guideline Calculations



# Debt Capacity

# Managing State Debt Capacity

- Guidelines reflect a point in time
  - Once bonds are authorized, they first appear in Guideline #2
  - Once bonds are issued, they also appear in Guideline #1
    - Bonds are sold on a cash flow needs basis; the full authorization is not issued at once
- Debt Capacity reflects projections
  - Helps answer question, *How big could the bonding bill be?*
  - Based on forecast assumptions of 10-year rolling average
    - \$880 million in even years / \$135 million in odd years (November 2021 Forecast)

# Managing State Debt Capacity

## November 2021 Debt Capacity Report Maximum

<i>Dollars in millions</i>	FY22	FY23	FY24	FY25	FY26	FY27
Bonding Bill Assumed in Nov '21 Forecast	\$880	\$135	\$880	\$135	\$880	\$135
Maximum New Debt Authorizations Within Debt Guidelines	\$3,500	\$2,400	\$1,900	\$1,100	\$2,600	\$1,700
	FY23	FY24	FY25	FY26	FY27	FY28
Impact on Guideline #1	2.40%	2.73%	3.15%	3.25%	3.24%	3.21%
Impact on Guideline #2	4.22%	4.44%	4.51%	4.36%	4.53%	4.46%
Additional Debt Service Required	\$41	\$174	\$387	\$472	\$559	\$660

# Bond Ratings

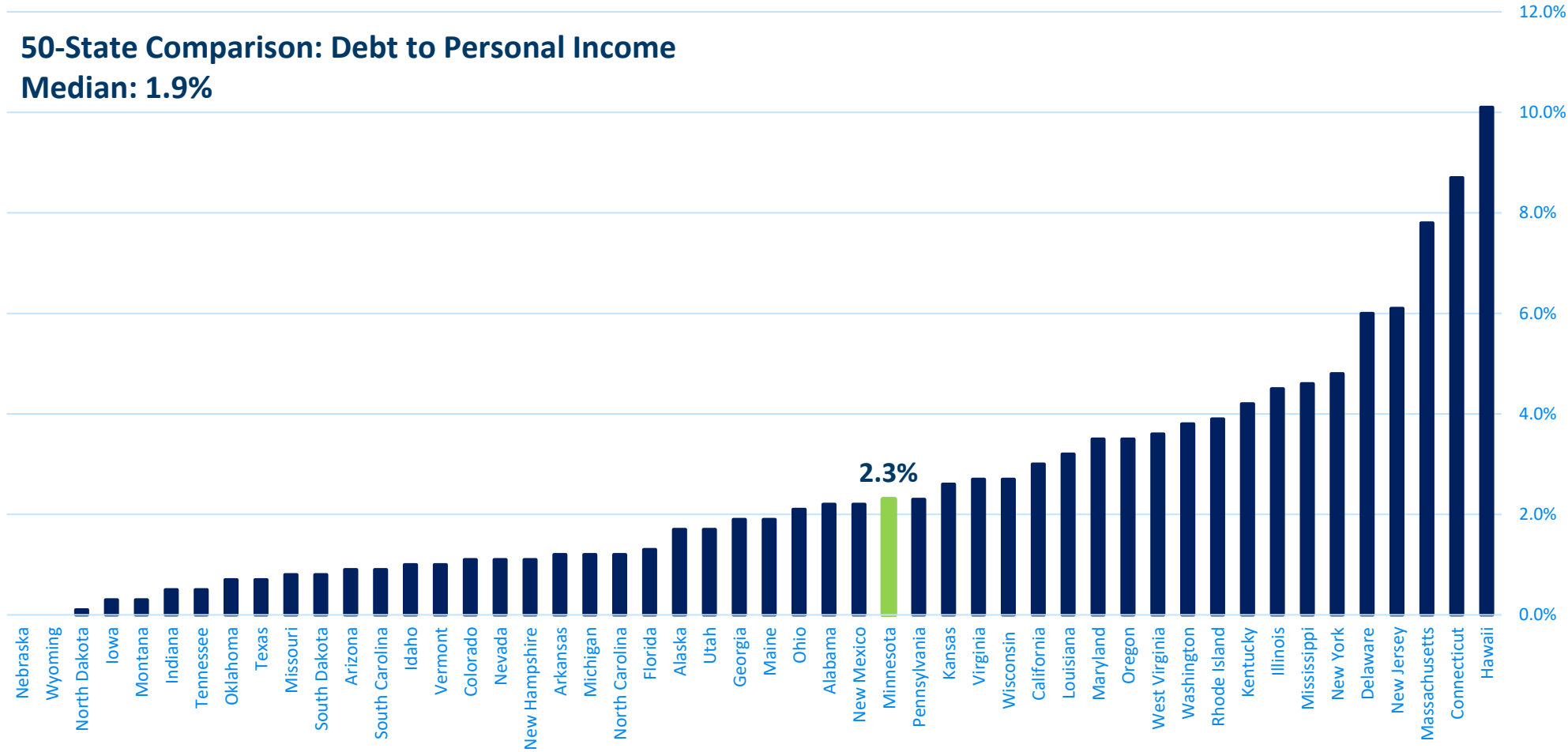
- Bonds may be rated by one or more of the three major credit rating agencies

	G.O. Rating	Outlook
Fitch Ratings	AAA	Stable
Moody's Investors Service, Inc.	Aa1	Positive
S&P Global Ratings	AAA	Stable

- A bond rating is a measure of credit risk to investors
- “AAA” is the highest rating; “D” bonds are in default
- The higher the credit rating
  - The lower the risk, and
  - The lower the interest rate

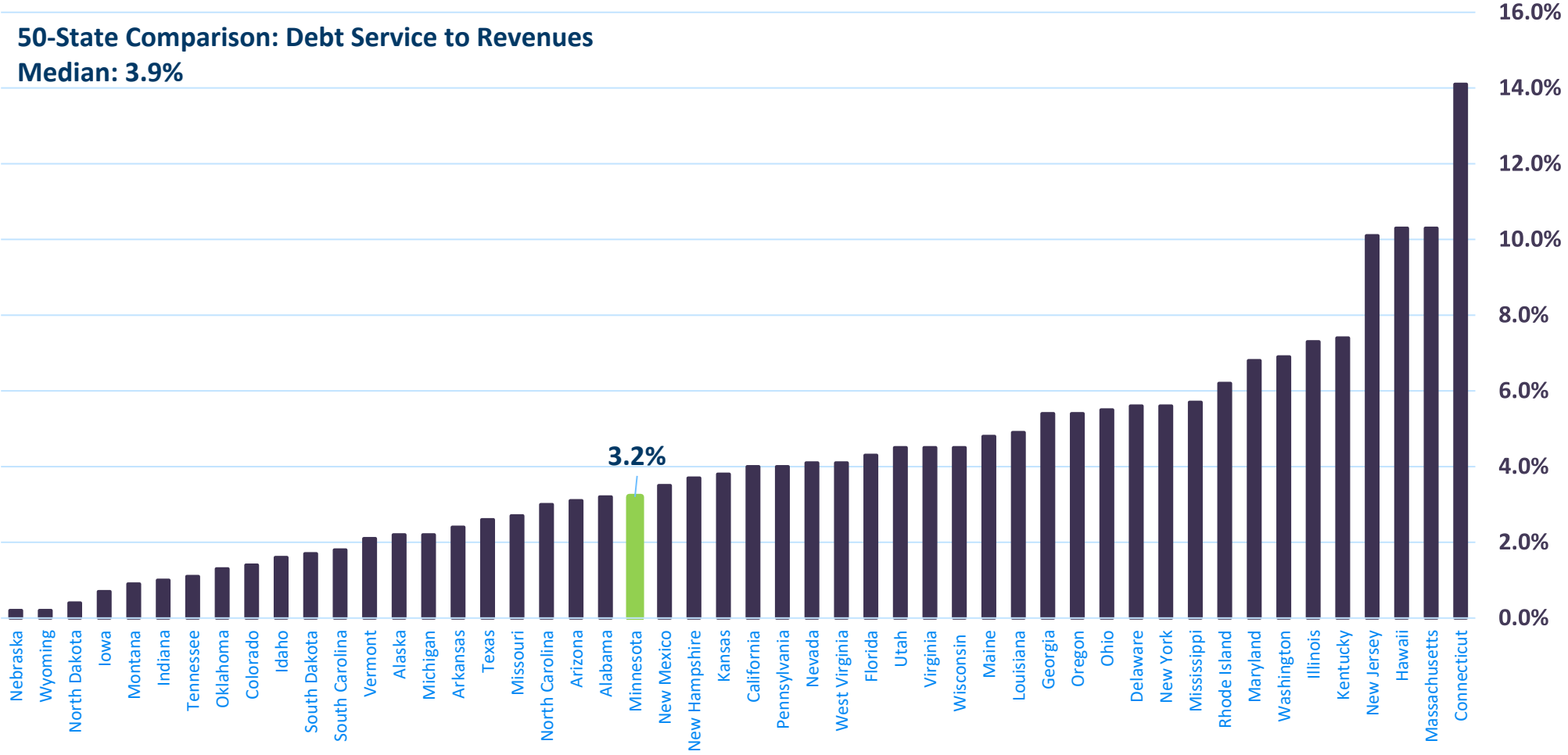
# State-by-State Comparison

## 50-State Comparison: Debt to Personal Income Median: 1.9%



Source: Moody's State Debt Medians 2021, June 14, 2021.

# State-by-State Comparison



Source: Moody's State Debt Medians 2021, June 14, 2021.

# Thank you

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*<https://mn.gov/mmb/debt-management/>*

651-201-8079





# Federal Funding Update

Ahna Minge | State Budget Director

# Federal COVID Relief Funds

# Federal COVID Relief Bills

- Coronavirus Preparedness and Response Supplemental Appropriations (CPRSA) Act – March 6, 2020
- Families First Coronavirus Response Act (FFCRA) – March 18, 2020
- Coronavirus Aid, Relief, and Economic Security (CARES) Act – March 27, 2020
- Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act – December 27, 2020
- American Rescue Plan Act (ARPA) – March 11, 2021

# Federal Funding for COVID Response

(\$ millions)

Funding Category	State	Other Recipients	Total
Flexible Funds	\$3,863	\$3,289	\$7,153
Education	\$2,256	\$1,101	\$3,357
Health & Human Services	\$1,716	\$2,289	\$4,005
Economic Assistance	\$1,124	\$51,093	\$52,217
Housing	\$893	\$127	\$1,019
Childcare	\$719	N/A	\$719
Food Security	\$822	\$1,846	\$2,668
Transportation	\$83	\$1,294	\$1,376
Other	\$25	\$150	\$175
<b>Total</b>	<b>\$11.5 billion</b>	<b>\$61.2 billion</b>	<b>\$72.7 billion</b>

Source: Federal Funds Information for States (FFIS), as of Feb. 1, 2022

# \$11.5B in State-Administered COVID Response Funds (\$ millions)



# Coronavirus Relief Fund (CRF)



## Flexible State Funds

- **Local Governments: \$1.16 billion**
- **State Government: \$1.03 billion\***

Category	Amount
Education	\$248 million
Testing	\$193 million
Critical Care Supplies	\$45 million
At Risk Populations	\$165 million
Business Relief	\$157 million
Child Care Stabilization	\$146 million
Food Security	\$82 million
Healthcare Stabilization	\$35 million

\*\$1.03 billion award does not include insurance and FEMA reimbursements, or interest earned.

# Agreement on ARP State Fiscal Recovery Funds



## Flexible State Funds



- State Revenue Replacement: **\$1.183 Billion**
- COVID-19 Immediate Response: **\$500 Million**
- 2022 Legislative Priorities: **\$1.150 Billion**

# COVID-19 Immediate Response: \$500 million



## Flexible State Funds

- **Summer Learning Package: \$75 million**
- **COVID-19 Flexible Response Account: \$425 million**

Category	Amount Authorized
Healthcare Stabilization	\$105 million
Testing & Vaccination	\$75 million
Sheltering & Rental Assistance	\$52 million
Education	\$37 million
Workforce Stabilization	\$35 million
Public Safety & Courts	\$31 million
Child Care Stabilization	\$20 million
Food Security	\$20 million
Other	\$45 million
<b>Unauthorized</b>	<b>\$3.5 million</b>



# Flexible Local Funds



## Flexible Local Funds

Bill	Cities & Towns	Counties	Total
CARES Act (CRF)	\$373 million	\$784 million	<b>\$1.2 billion</b>
American Rescue Plan (LFRF)	\$1.0 billion	\$1.1 billion	<b>\$2.1 billion</b>
<b>Total</b>	<b>\$1.4 billion</b>	<b>\$1.9 billion</b>	<b>\$3.3 billion</b>

# Federal Education Funding

- State has received \$2.113 billion for education funding through two programs through CARES, CRRSA, and ARPA
- Elementary and Secondary School Emergency Relief (ESSER):
  - \$2.050 billion
  - 90% formula to districts
  - 10% state-directed grants to districts
- Governor's Emergency Education Relief (GEER):
  - \$63 million
  - School aged care, technology access, mental health, training, response

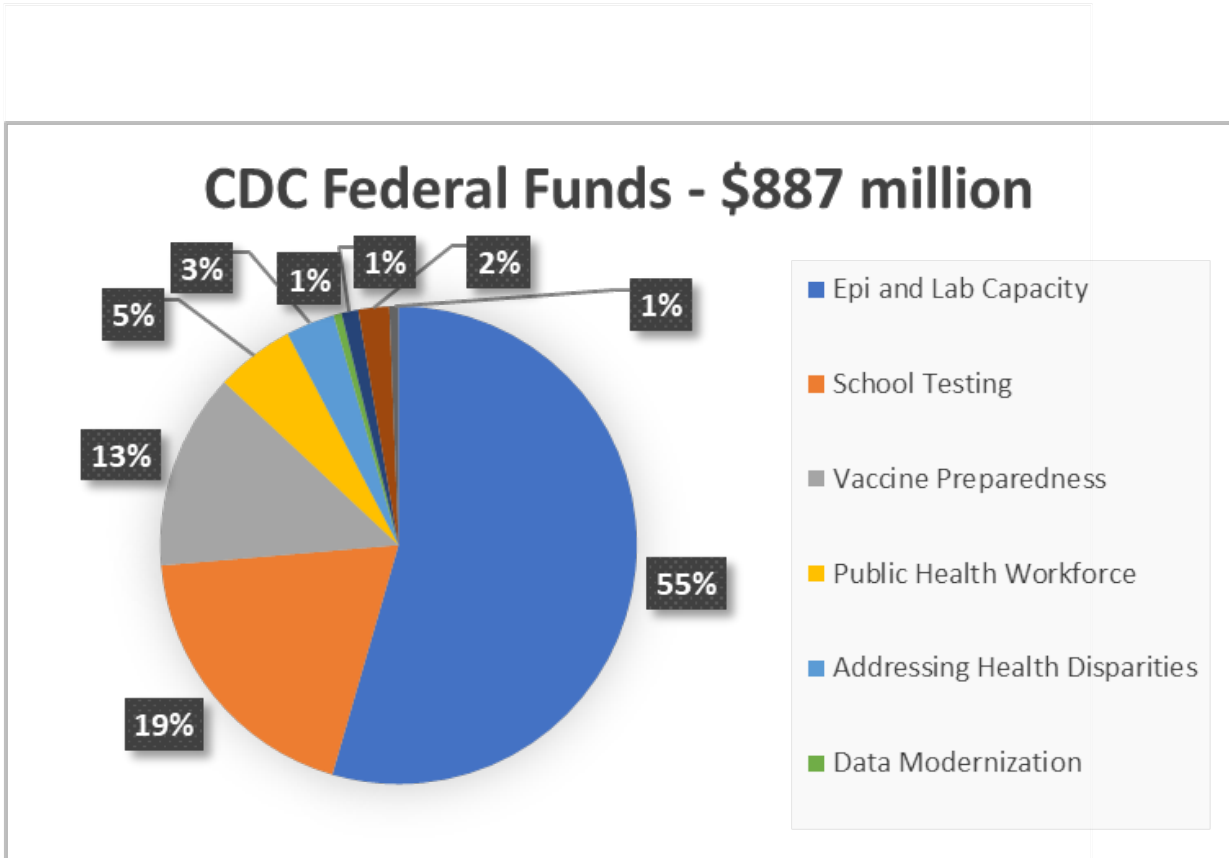
# Federal Child Care Funding

The Department of Human Services will receive \$747 million through CARES, CRSSA, and ARPA by FY 2025

- Child Care Stabilization Funds: \$300 million to be used for monthly grants and hardship grants to child care providers
- CCDBG:
  - Used to increase CCAP rates to 40<sup>th</sup> percentile for infants and toddlers, and 30<sup>th</sup> percentile for all other children
  - Provided monthly grants to child care providers and a basic sliding fee buydown

# Public Health Response

- \$887 million in federal funding was awarded to MN from ARPA, CARES, CPRSAA, and the Paycheck Protection Program & Health Care Enhancement Acts
- Funds for community and school testing, vaccine preparedness, and local & state public health capacity building
- MN has awarded \$193M from the CRF and \$75 million from the ARPA flexible allocation for COVID-19 testing and vaccination response.
- FEMA funded vaccination and testing \$307 million



# 6.2% Enhanced Medicaid Match

- Enhanced federal matching rate for state medical assistance (MA) spending included in FFCRA
- Available for every quarter with an active federal public health emergency for one day
- Additional federal funding \$330 million in FY20, \$714 million in FY21, \$709 million in FY22 (Q1-Q3), which *reduces state appropriation* for MA
- The state was required to provide continuous coverage to enrollees, at a cost of around \$490 million

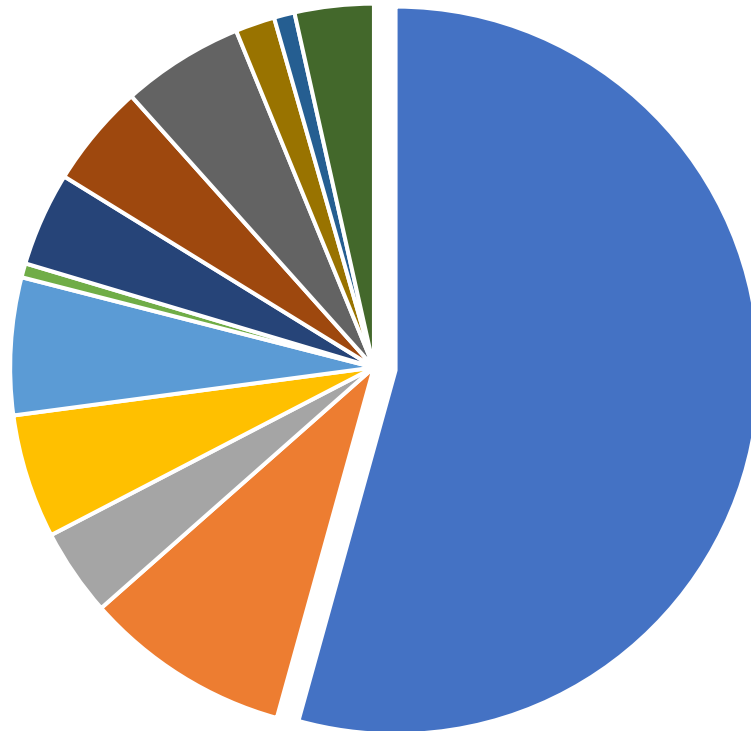
# Federal Funds Used to Reimburse the General Fund

- \$755 million in state funds have been invested in COVID-19 response since March 2020
- Of that investment, \$310 million has been returned to the general fund through FEMA reimbursement, insurance reimbursement on testing costs, returned funds from grantees, and underspending.
- 2021 legislature directed MMB to maximize federal funds by reallocating general fund investments to federal funds, particularly the Coronavirus Relief Fund
- To date, all available balance in the CRF has been reallocated to the general fund.

# Infrastructure Investment and Jobs Act

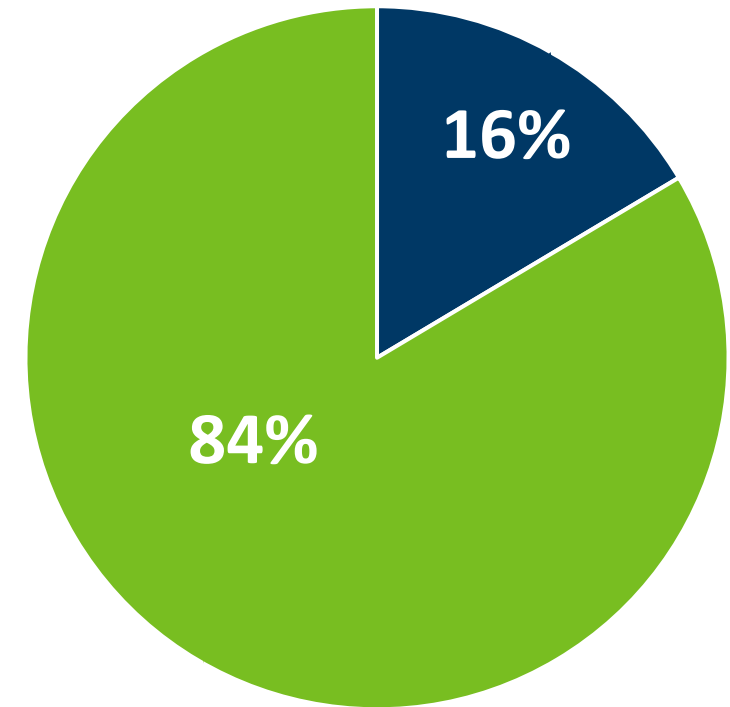
# Infrastructure Investment and Jobs Act (IIJA): What We Know

**IIJA: \$1.2 Trillion in Total, \$550 Billion in New Spending**



- FAST Act Reauthorization
- Rail
- Climate Resilience and Adaptation
- Environment & Public Lands
- Roads and Bridges
- Energy/Power Grid
- Water
- Transportation Safety
- Transit
- Electric Vehicle Infrastructure
- Broadband
- Airports & Ports

**Minnesota Estimated to Receive \$7.3 Billion**



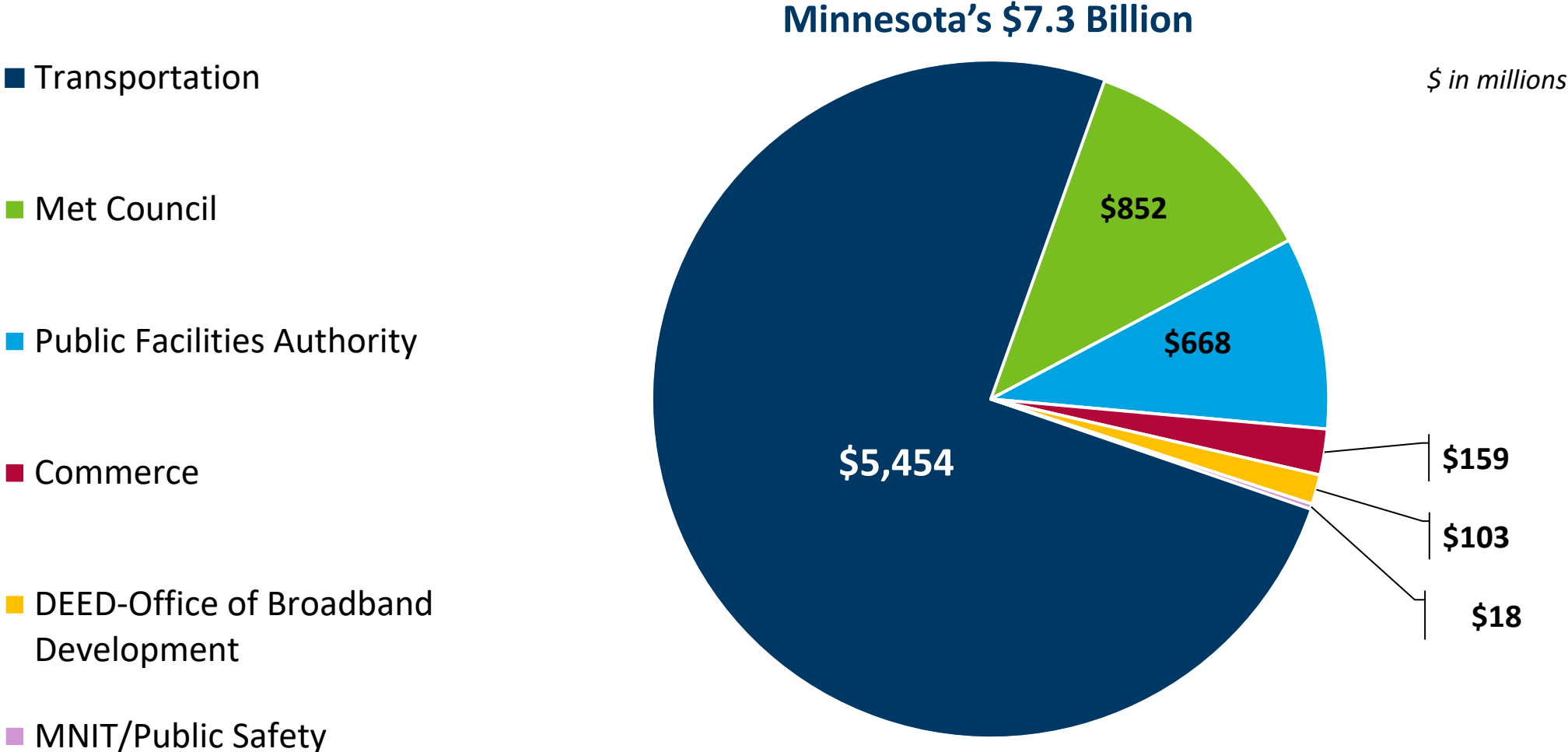
- No Match
- Match Required

Source: FFIS, 2/1/2022

2/17/2022



# IJA Allocation Estimates by State Agency: FFY 2022-2026



Source: FFIS, 2/1/2022

# Infrastructure Investment and Jobs Act (IIJA): What We Don't Know

- Applications for Competitive Awards
- Timing of Guidance
- Availability of Appropriations



Ahna Minge | State Budget Director