

Bonding Basics

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January 10, 2023

What is a bond?

- ▶ A bond is a debt instrument -- a way to borrow money, with a commitment to pay it back over time in installments with interest

General Obligation Bonds

- ▶ Backed by “full faith and credit” of state
- ▶ Can only be used to fund projects that:
 - Have a public purpose – req’d for all state money
 - Are specified in law (Art. XI, sec. 7)
 - Are for one of the listed purposes (Art. XI, sec. 5)
- ▶ Bonds must mature in no more than 20 years
- ▶ Bill that authorizes g.o. bonds must originate in the House

Allowed uses for public debt

1. To acquire and to better public land and buildings and other public improvements of a capital nature
2. To repel invasion or suppress insurrection
3. To borrow temporarily through certificates of indebtedness
4. To establish and maintain highways subject to constitutional limitations on highway bonds
5. To promote forestation and prevent and abate forest fires
6. To construct, improve, and operate airports and other air navigation facilities
7. To develop the state's agricultural resources by extending credit on real estate
8. To improve and rehab public or private railroad rights-of-way and other rail facilities up to \$200 million par value
9. As otherwise authorized in the constitution.

Projects to “acquire and better public land and buildings”

- ▶ Most common purpose of G.O. bonds
- ▶ Must be a capital project
 - Fixed asset
 - Long-lived (at least 10 yrs)
 - Substantial improvement
 - Not predictable or recurring; not routine maintenance
- ▶ Must be publicly owned – by state or local government
- ▶ Requires three-fifths vote in House and Senate

Two processes for local governments – use both!

- ▶ MMB capital budget process
- ▶ Legislative process: have a bill introduced, heard in committee, toured

Information needed to draft a bonding bill

- ▶ Who owns or will own the land/building/facility?
- ▶ How much in bond proceeds is requested?
- ▶ Will this amount pay for the whole project? Who else will be contributing to the project and how much? All financing to complete the project must be committed before an appropriation will be released.
- ▶ Exactly what will the money be used for? Be specific.
 - Acquire land? (Where? How much land?)
 - Pre-design?
 - Design?
 - Construction?
 - Furnish and equip?
 - Demolish?
 - Renovate?
 - On existing footprint? Or an expansion?

More info needed to draft a bonding bill

- ▶ Location of the project
- ▶ How will the facility be used? Will any private entities use the property, and if so, how and how much?
- ▶ Contact person
- ▶ TIP #1: Good idea to fill in a blank project worksheet for local governments from the Capital Budget Instructions on MMB's site
- ▶ TIP #2: Encourage local governments to go through the proper, full procedure by submitting requests through MMB in odd years

Two Funding Requirements for each project funded with bond proceeds

- ▶ Project must be fully funded
- ▶ 50% nonstate match

Full Funding

- ▶ A project must be fully funded before MMB will release bond proceeds for the project.
- ▶ Local government must show that full funding is committed to the project

Nonstate Match

- ▶ Statute requires a 50% match of NONSTATE money for capital projects of local governments
 - Other state money appropriated for the project is not “nonstate money” and does not count toward the match.
 - Money spent on earlier phases of the project do not count toward the match for the phase of the project funded in the bill.
 - The legislature can waive the requirement for the match.

Other financing options

- ▶ Appropriation bonds – state– or agency– issued
- ▶ Revenue bonds
- ▶ Certificates of participation
- ▶ Lease–purchase financing for equipment or real estate

State-Issued Appropriation bonds

- ▶ New in 2011; held valid by MN S.Ct. in 2012
- ▶ Not backed by “full faith and credit”
- ▶ Not backed by a revenue stream
- ▶ Contractually required to make payments if the state appropriates money for this purpose
- ▶ Interest rate – higher than G.O. bonds

Revenue bonds

- ▶ Backed by a dedicated revenue stream
- ▶ Market value, and therefore the interest rate, depends on how reliable and predictable the revenue stream is
- ▶ Example: 2011 tobacco settlement revenue bonds

Trunk Highway Bonds

- ▶ A type of general obligation bonds, i.e. backed by the full faith and credit
- ▶ Can only be used for “trunk highway purposes”
- ▶ Some projects that involve trunk highways may include aspects that do not serve trunk highway purposes, and those have to be funded with some other source of funds, most commonly general obligation bonds or cash

Agency-Issued Appropriation Bonds

- ▶ Agency issues bond. State appropriates money (typically through a statutory appropriation) to pay the debt service on them
- ▶ Example: MHFA Housing Infrastructure Bonds

QUESTIONS?