

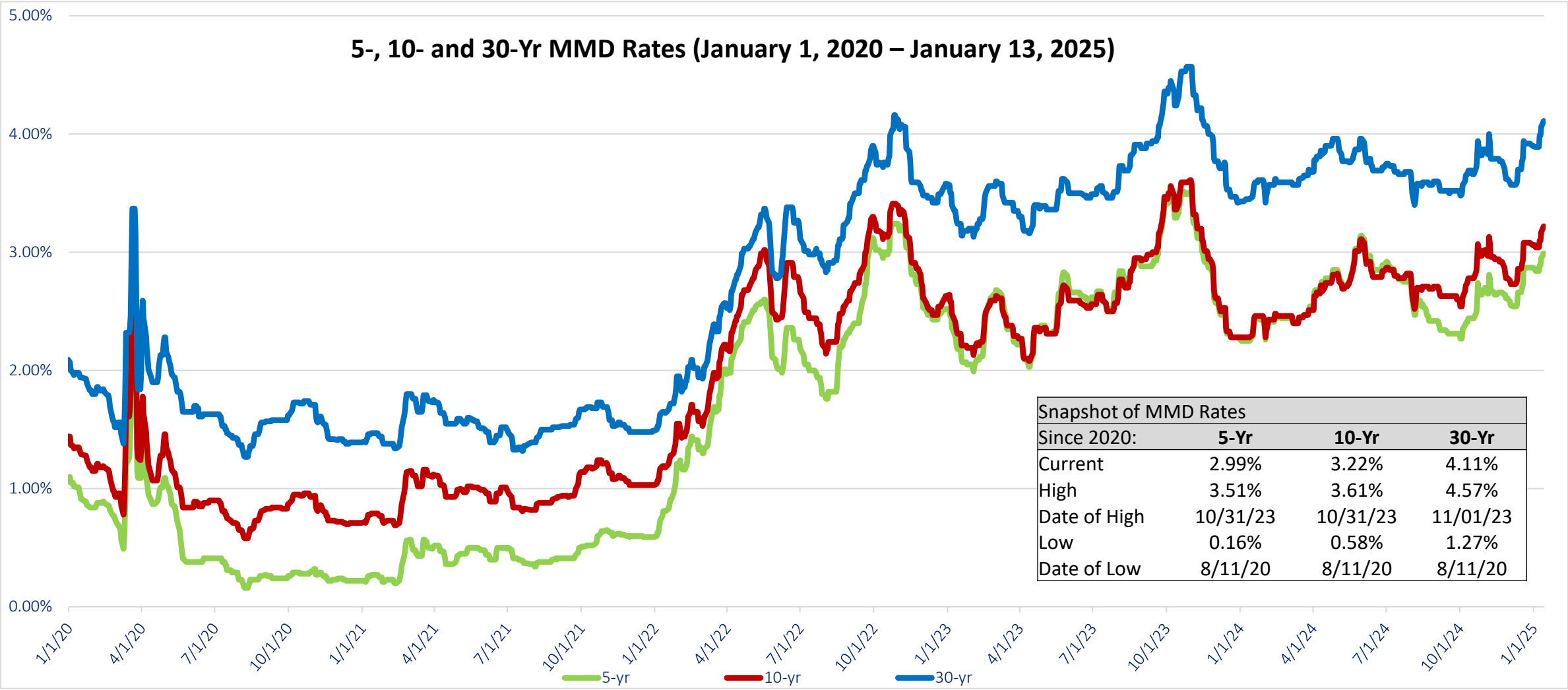


Capital Investment Guidelines, Debt Capacity and Cancellation Report

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Municipal Bond Market

Municipal Bond Market Since 2020



Historical MMD Rates

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
- But not “self-supporting debt” (for example, revenue bonds)

Capital Investment Guideline #1

- **Guideline #1:** Total tax-supported principal outstanding (sold) shall be 3.25% or less of total state personal income. **Nov. 2024: 1.89%**
- Purpose is to measure the capacity to repay debt
- What debt is included?
 - State Issued Debt
 - General Obligation Various Purpose Bonds; General Obligation Trunk Highway Bonds; State Appropriation Bonds; Certificates of Participation
 - State-Supported Debt
 - State standing appropriations (University of Minnesota and Minnesota Housing Finance Agency); Lease-Purchase Financing for Real Estate

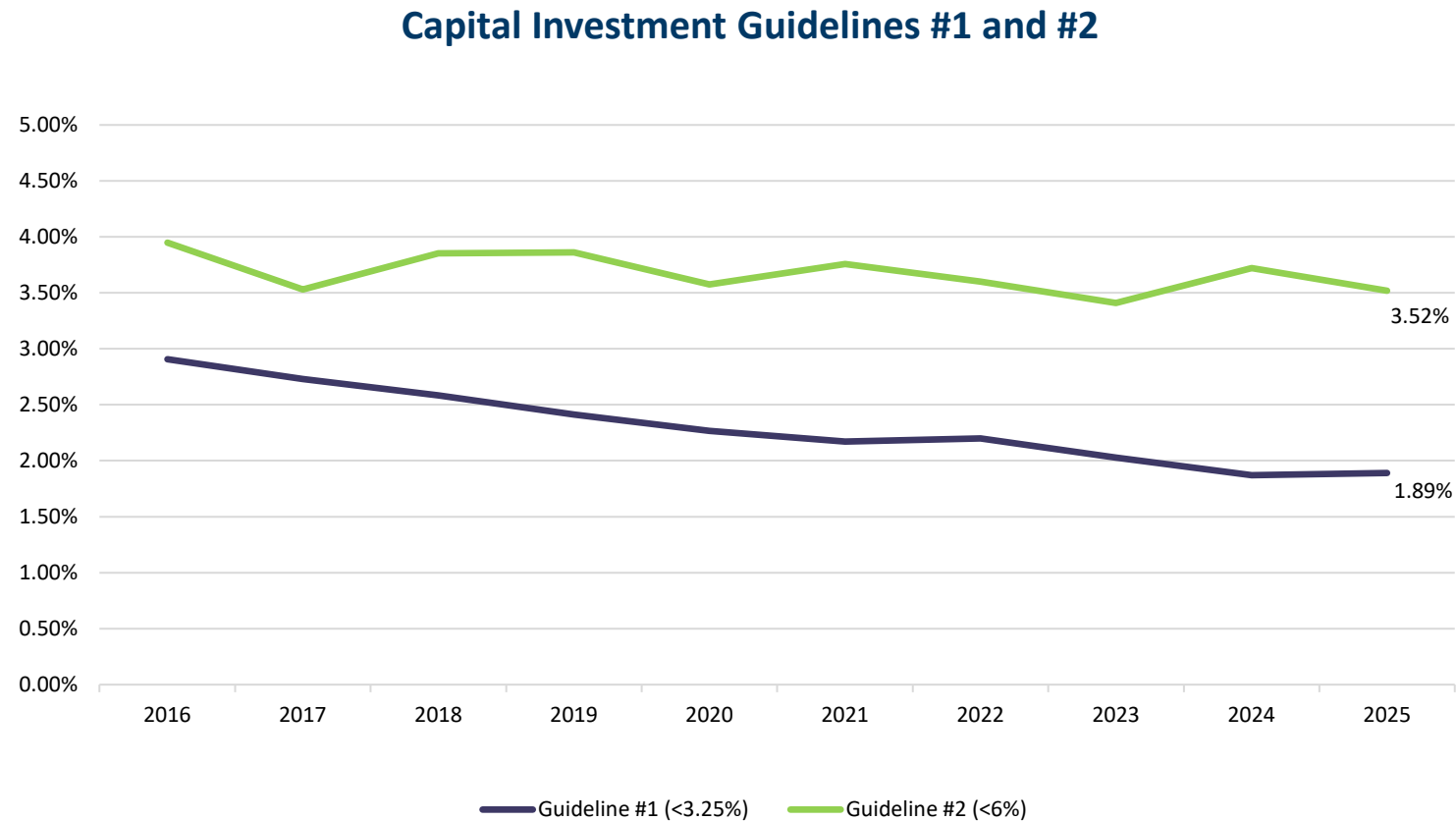
Capital Investment Guideline #2

- **Guideline #2:** Total amount of tax-supported principal (both sold and authorized/unsold) for state general obligations, state moral obligations, equipment capital leases and real estate capital leases shall not exceed 6% of total state personal income. **Nov. 2024: 3.52%**
- What debt is included?
 - All debt types included in Guideline #1, including authorized but unissued, plus
 - Moral obligations (Housing Finance Agency, Office of Higher Education)
 - Lease purchase financing for equipment

Capital Investment Guideline #3

- **Guideline #3:** At least 40% of state G.O. bonds are to mature within 5 years and 70% within 10 years. **Nov. 2024: 42.2% / 73.1%**
- Cost of bonding bills are realized more quickly
- Purpose is to preserve additional borrowing capacity for future legislatures

Guidelines #1 and #2 Remain within Historic Range



Debt Capacity

Statement of Indebtedness

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

<i>(as of 11/30/2024)</i>	Principal Outstanding	Authorized, Unissued
General Obligation Bonds	\$4,421,775,000	\$1,216,426,906
Trunk Highway Bonds	\$2,468,255,000	\$1,233,755,076
Annual Appropriation Debt	\$1,507,355,000	\$50,000,000
Total	\$8,397,385,000	\$2,500,181,982

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 historic rolling average
 - \$790 million in 2025 / \$1.01 billion in even years / \$165 million in odd years (November 2024 Forecast)

Guideline #1 & #2 Capacity

November 2024 Debt Capacity Report Maximum: Personal Income (Guidelines #1 and #2)						
<i>Dollars in millions</i>	FY25	FY26	FY27	FY28	FY29	FY30
Bonding Bills Assumed in Nov. 2024 Forecast	\$790	\$1,010	\$165	\$1,010	\$165	\$1,010
Maximum New Debt Authorizations Within Debt Guidelines #1 and #2	\$3,475	\$2,800	\$2,500	\$2,800	\$2,500	\$2,800
	FY26	FY27	FY28	FY29	FY30	FY31
Impact on Guideline #1	1.99%	2.24%	2.57%	2.84%	2.97%	3.25%
Impact on Guideline #2	4.11%	4.47%	4.70%	4.86%	5.00%	5.37%
Additional Debt Service Required	\$42	\$167	\$351	\$580	\$715	\$910

Guideline #3 Capacity

November 2024 Debt Capacity Report Maximum: Scheduled Debt Retirement (Guideline #3)				
	Bonding Bills Assumed in Nov. 2024 Forecast (<i>millions</i>)	Maximum New Debt Within Guideline #3 (<i>millions</i>)	% Retired in 5 Years as of 6/30 (Maximum Scenario)	% Retired in 10 Years as of 6/30 (Maximum Scenario)
FY 2025	\$790	\$790	42.2%	73.1%
FY 2026	\$1,010	\$1,010	41.7%	71.8%
FY 2027	\$165	\$171	40.8%	70.5%
FY 2028	\$1,010	\$1,510	40.3%	70.0%
FY 2029	\$165	\$255	40.2%	70.0%
FY 2030	\$1,010	\$1,260	40.0%	70.4%

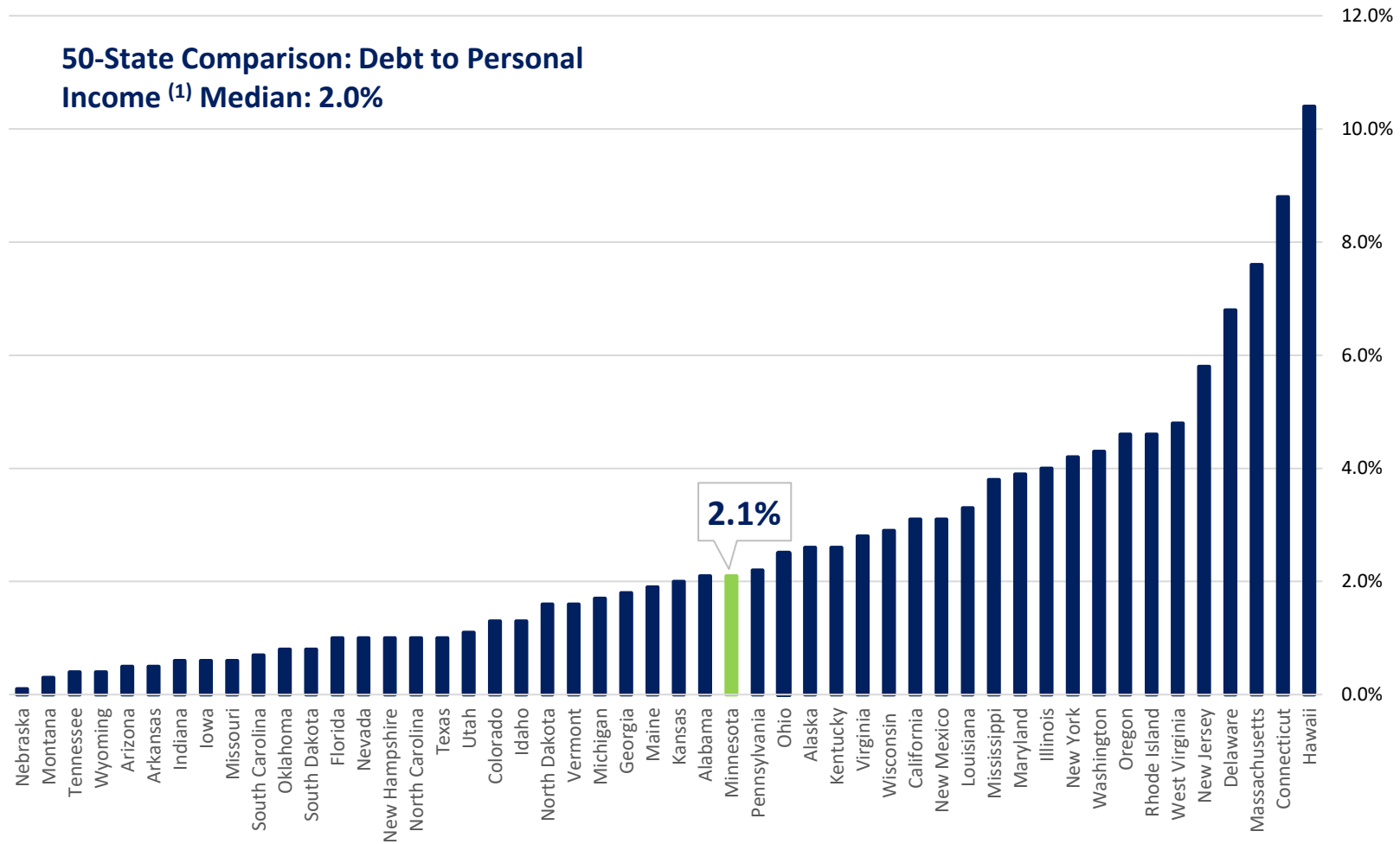
Next bond sale will be in Summer 2025 (FY2026), which will flow into the Guideline #3 updates in November 2025.

Inputs into Guideline 3

- (1) Existing debt that's been sold plus (2) authorized/unissued debt that will be sold plus (3) future capital budgets
 - Starting point is debt the state is already obligated on
- Future debt is sensitive to:
 - Interest rate changes
 - Spending assumptions for authorized/unissued debt can shift
- General obligation debt is issued with level principal

State-by-State Comparison

50-State Comparison: Debt to Personal Income ⁽¹⁾ Median: 2.0%



Source: Moody's State Debt Medians 2024, October 07, 2024.

Cancellation Report

Cancellations (M.S. §16A.642)

- Commissioner of MMB issues cancellation report by February 1 of each year
- Lists all bond and general fund capital appropriations previously enacted > 4 years with unspent and unencumbered balances
- The 2025 report showed amounts from 2020 bonding bill and earlier
 - Total of \$30.3 million in GO bonds and \$4.0 million in General Fund cash
- Such balances will be cancelled as of July 1 of the year of the report
- Cancelled balances go to repay state bonds or to the general fund

Thank you

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

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