



## Capital Investment Guidelines and Debt Capacity

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# Capital Investment Guidelines

# Capital Investment Guideline #1

- **Guideline #1:** Total tax-supported principal outstanding (sold) shall be 3.25% or less of total state personal income. **Feb. 2025: 1.90%**
- 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. **Feb. 2025: 3.59%**
- 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. **Feb. 2025: 42.2% / 73.1%**
- Cost of bonding bills are realized more quickly
- Purpose is to preserve additional borrowing capacity for future legislatures

# 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	\$1,494,820,000	\$50,000,000
Total	\$8,384,850,000	\$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
  - \$700 million in 2025 / \$1.01 billion in even years / \$165 million in odd years (February 2025 Forecast)



# Guideline #1 & #2 Capacity

February 2025 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 Feb. 2025 Forecast	\$700	\$1,010	\$165	\$1,010	\$165	\$1,010
Maximum New Debt Authorizations Within Debt Guidelines #1 and #2	\$3,545	\$2,800	\$2,500	\$2,800	\$2,500	\$2,800
	FY26	FY27	FY28	FY29	FY30	FY31
Impact on Guideline #1	1.99%	2.24%	2.58%	2.84%	2.97%	3.25%
Impact on Guideline #2	4.15%	4.50%	4.73%	4.88%	5.02%	5.40%
Additional Debt Service Required	\$46	\$179	\$370	\$609	\$746	\$949

# Guideline #3 Capacity

February 2025 Debt Capacity Report Maximum: Scheduled Debt Retirement (Guideline #3)				
	Bonding Bills Assumed in Feb. 2025 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	\$700	\$700	42.2%	73.1%
FY 2026	\$1,010	\$1,010	41.7%	71.7%
FY 2027	\$165	\$165	40.8%	70.5%
FY 2028	\$1,010	\$1,460	40.3%	70.0%
FY 2029	\$165	\$265	40.3%	70.0%
FY 2030	\$1,010	\$1,490	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

# Thank you

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

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